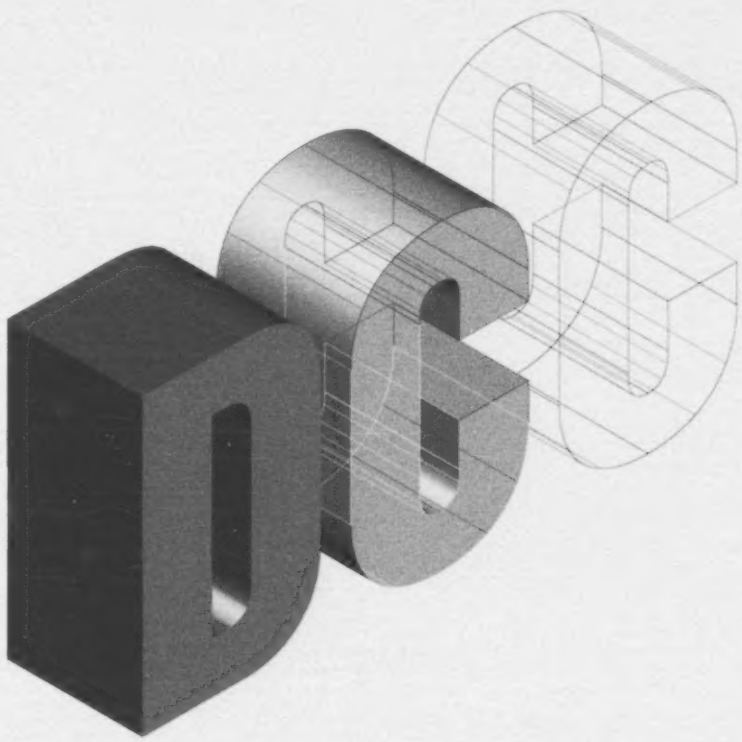

Canada

Defence Construction Canada (DCC)) is a Crown corporation with a mandate to provide contracting, construction contract management and related infrastructure services in support of the defence of Canada. The prime beneficiary of DCC services is the Department of National Defence (DND).

Services include:

- Procurement
- Contract Management
- Environmental Services
- Project Management
- Infrastructure Support Services

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Defence Construction Canada
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Defence Construction Canada
Construction de Défense Canada

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www.dcc-cdc.gc.ca

MISSION

The primary mission of Defence Construction Canada (DCC) is to provide high-quality, timely and efficient contracting, contract management and related services to support the Department of National Defence (DND) and the Canadian Forces (CF) in the long-term development and management of facilities infrastructure. DCC will support the timely delivery of defined projects or supplies for other government departments and agencies in accordance with its mandate.

VISION

Defence Construction Canada's vision is to be the leading provider of innovative solutions that add value for its client, foster growth in its employees and make meaningful contributions to its industry.

VALUES

Dedication

DCC is dedicated to supporting the infrastructure and environment requirements of the Department of National Defence. For over half a century, DCC employees have dependably and diligently carried out that mission.

Fairness

DCC deals with its client, contract partners and employees in a fair and ethical manner, advocating mutual respect and professionalism in the attainment of the common interests of all parties.

Competence

DCC has created a dynamic working environment in which the qualifications, experience and expertise of employees are focused on developing innovative solutions to the client's needs.

CORPORATE OBJECTIVES

As a Crown corporation, DCC aims to achieve the following corporate objectives related to governance and leadership, service delivery, stakeholder relationships, and corporate services and support:

1. to ensure the long-term viability of the Corporation through prudent financial management and the provision of efficient and effective services for DND;
2. to implement management practices that encourage value-added, innovative service delivery;
3. to manage industry, organizational and contractual relationships in an ethical, fair and professional manner;
4. to maintain the flexibility of structure, policies and systems necessary to accomplish the corporate mission in the face of changing circumstances and needs;
5. to conduct operations in a way that helps protect the natural environment;
6. to maintain human resources management practices that advocate and advance the well-being of employees, as well as their personal and professional development;
7. to adhere to all statutory requirements and public policy regulations and guidelines; and
8. to make decisions and manage risks in the best interests of the Crown.

Defence Construction Canada
Construction de Défense Canada

Board of Directors
Conseil d'administration

June 30, 2006

The Honourable Michael M. Fortier, P.C.
Minister of Public Works and Government Services
The Senate of Canada
Ottawa, Canada
K1A 0A6

Dear Minister:

I am pleased to submit to you, on behalf of the Board of Directors, the Annual Report for Defence Construction (1951) Limited, for the fiscal year ended March 31, 2006. This submission is made in order to fulfill the Board's responsibilities respecting governance of the Corporation and in accordance with Part X of the *Financial Administration Act*.

The mission of the Corporation is to assist the Department of National Defence in meeting its operational, construction and property management requirements, as well as supporting the timely delivery of defence projects or supplies for other government departments and agencies in accordance with its mandate.

In our role as a Crown corporation, we remain aware of the need to maintain transparency in the conduct of our operations. Although the Corporation is a mature organization, we regularly seek ways to improve and review elements of our governance procedures as well as ways to improve the flow of communication to our shareholders. In our role as a service provider, we meet the needs of the client, and as a Crown corporation, we are accountable to Parliament, through you, as Minister responsible for the Corporation.

As required, this report also includes the Corporation's financial statements for the period April 1, 2005, to March 31, 2006. The Auditor General of Canada has audited these financial statements.

Both the Board and senior management of the Corporation remain committed to building on our past successes and look forward to meeting the new challenges that lie ahead.

Respectfully submitted,

John D. McLure
Chair

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Canada

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HIGHLIGHTS 2005–2006

Managing growth cost-effectively while exceeding client expectations are among the success stories for DCC in 2005–06. Continuing the trend of the past five years of an expanding portfolio of specialty services, in addition to its mainstay of construction contract management, DCC continues to be an unparalleled resource to the Department of National Defence.

BUSINESS VOLUME

CONTRACT EXPENDITURES — $445,293,000

Although the range of services offered to the Department of National Defence has changed, contract expenditures have remained at approximately the same level as last year. (p. 21)

SERVICES REVENUE — $42,481,000

The demand for DCC services continues to grow. Revenue has increased by 23% over last year, primarily due to an overall increase in business volume and a rising demand for value-added services. (p. 34)

NUMBER OF CONTRACTORS AND CONSULTANTS USED — 1,287

Opportunity abounds. In 2005–06, DCC conducted business with 1,287 different firms – another example of how DCC conducts open and fair business practices and fosters competition in the marketplace.

QUALITY

LEVEL OF CLIENT SATISFACTION — 98.6%

Finding out where DCC can improve is something DCC takes seriously. So, throughout the year, representatives meet with each of its client groups to gather feedback on its overall performance. In 2005–06, the client satisfaction rating increased slightly. While it has remained consistently positive over the past few years, DCC moves swiftly to settle issues where required. (p. 18)

SUCCESSFUL CONTRACTING RATIO — 93.6%

DCC understands the amount of time and effort that the industry spends preparing and submitting tenders. Working directly with DND, the Corporation ensures projects meet the necessary requirements by screening them before going to tender. This helps reduce the risk of a failed tender call. Tender prices that exceed the available budget amount is the most frequent reason for tenders not resulting in a contract award. (p. 15)

DCC's expertise helps build trust with its primary client, DND. This trust was demonstrated when DCC's Pat Baker, a site manager at Area Support Unit London, was asked to step in and work as the Construction Engineering Officer for the base in 2006 — the first time a civilian has taken on this responsibility. During a DCC site visit, Baker (second from right) consults with (from left to right) Chief Warrant Officer Kevin Carleton, 2 Area Support Group Sergeant Major, Petawawa; Col. Ian Poulter, 2 Area Support Group Commander, Toronto; and Maj. Keith MacNeil, Commanding Officer, Area Support Unit, London.

CFB Shilo's 2 Princess Patricia's Canadian Light Infantry (2 PPCLI) headquarters was awarded second place in the Canadian Design-Build Institute's (CDBI) National Design-Build Award of Excellence. This design-build project involved three new buildings: two for vehicles and one used as a combined main building and training facility. DCC provided the contract management services, and through an innovative approach, helped the client meet the timeline for the 2 PPCLI's move from Winnipeg to Shilo.

Chris Sturgeon, Contract Coordinator, inspects recent work during a demolition job at the Royal Military College in Kingston, Ontario. The interior of the Fort Haldimand Cadet Quarters is being rebuilt and renovated. The $14 million contract will provide space for more than 250 cadets. Modernized accommodations, storage and office space, as well as a mezzanine, will greet cadets upon their arrival at the college in September 2007. Thanks to the new renovations, more than 60,000 square feet of floor will be freed up for use by the students.

Defence Minister Gordon O'Connor visited CFB Gagetown's 2 Royal Canadian Regiment (2 RCR) Operations Centre, a $22-million facility. Here, O'Connor speaks with DCC's Fred Boyle, a Project Support Officer, who delivered a technical briefing to the Minister during his visit. Among its many features, the facility will offer administrative office space, an indoor running track and weapons simulators, as well as conference and board rooms, offices for the Base Commander and his staff, weapons storage facilities and Light Armoured Vehicle (LAV) III training facilities.

DCC's commitment to ensuring a safe work environment was recognized by DND this fall. Employees at the 4 Wing/CFB Cold Lake site office were presented with plaques and jackets by the Wing General Safety Officer in November 2005, in recognition of their long-term commitment to ensuring a safe work environment. Pictured, from left to right, are: Dave Harvey, Clint Horyn, Colleen Nichol, Jorunn McEvoy, Skye Kaus, and Rob Morgan. Safety is critical part of DCC's day-to-day activities at sites across the country.

NUMBER OF ENVIRONMENTAL INCIDENTS — 0
NUMBER OF SAFETY INCIDENTS — 3

A safe workplace is every employee's right. DCC reports on environmental incidents that occur as a result of policies, procedures, or management actions. None exceeded the reporting criteria last year. Time lost by DCC employees as a result of workplace accidents totaled 197 hours in 2005–06, a slim fraction of total workforce hours. No incidents were the result of negligence on the part of DCC's management or administration. (p. 10)

VALUE OF CONTRACT CLAIMS AT FISCAL YEAR-END — $6,442,000

DCC aims to mediate fairly between the Crown and the construction industry. Uniquely positioned to protect the interests of the Crown while ensuring the industry receives fair treatment, DCC understands the needs and issues of both parties. At year-end, there were 19 on-going legal actions with a value of $6.4 million. This is an increase of $141,000 over last year. (p. 20)

EFFICIENCY

UTILIZATION RATE — 72.7%

Despite its growth, the Corporation has not significantly increased its overhead expenses. This utilization rate has remained consistent over the past five years, ranging from 72.9% to 73.4%. Essentially, nearly three-quarters of an employee's time is spent on billable service delivery. As a proportion of total employee hours, this can be positively benchmarked against private sector firms in the engineering industry. (p. 30)

DIRECT PERSONNEL EXPENSE MULTIPLIER (DPEM) — 1.53

This mark-up figure represents the factor by which DCC's direct payroll costs (including benefits and compensated absences) is multiplied to determine billing rates. This allows the Corporation to recover all operating costs. (p. 30)

HUMAN RESOURCES

NUMBER OF EMPLOYEES AT FISCAL YEAR-END — 483

Finding the best people to get the job done right for DND is critical. As a result of increased service demand by clients, DCC's staff grew by 19% compared to the previous year. At year-end, DCC had 483 employees. This compares to 405 employees at the end of 2004–05, 348 employees at year end in 2003–04, 280 in 2002–03, and 267 in 2001–02. (p. 29)

EMPLOYEE RETENTION RATE — 90.6%

Voluntary turnover was low this year and the retention rate was within the target of 90%. There was a slight increase in voluntary staff turnover this year, but the retention rate remains slightly above the target of 90%. To continue building a supportive work environment, DCC evaluates the reasons why people choose to leave the Corporation. (p. 29)

TRANSPARENCY

NUMBER OF ACCESS TO INFORMATION REQUESTS —

DCC complies with both the spirit and the letter of the *Access to Information Act*. In 2005–06, the Corporation processed 17 access to information requests: 1 from the media, 4 from businesses, 3 from other organizations, 9 from the general public and 24 consultation requests from other government departments.

MESSAGE FROM THE CHAIR

As Chair of Defence Construction Canada (DCC), I am pleased to report on the Corporation's dynamic performance in 2005–06. During a period of transformation in the Canadian Forces (CF) and the Department of National Defence (DND), DCC has continued to provide the means and resources necessary to support its client's changing and indeed challenging requirements related to the management of its infrastructure and the environment.

This year has seen continued growth of DCC's value-added services as the CF continues to shift its focus more and more to its core military activities. Growth brings many challenges. DCC's management, with the oversight and support of the Board, has undertaken sound initiatives to ensure that the increase in staff numbers and the complexity of services offered are controlled and sustainable.

DCC ensures internal transparency and accountability by strictly applying the principles of good corporate governance. From the strategic planning process to the results described in this annual report, the Board ensures that the key operational risks are prudently managed, and that operational performance is measured, monitored and reported. The corporate risk management process extends from operational compliance reviews and quality management systems to independent internal auditing of all business activities. Senior management succession planning was implemented in 2005–06 with a selection process for a new vice president. As well, the President and I appeared before the House of Commons Standing Committee on Government Operations and Expenditures as part of the new appointment procedure to seek that Committee's endorsement for the reappointment by the Governor-in-Council of the President and CEO of DCC for a further term. In 2006–07, DCC will continue to monitor any changes to the framework for the governance of Crown corporations resulting from the implementation of the *Federal Accountability Act* and any other Government initiatives.

On a personal note, I would like to thank my fellow members of the Board for their role in guiding the strategic direction of the Corporation and overseeing management's execution of our expectations. The Board's collective expertise in the areas of construction, governance, law, public policy, finance and management has helped the Corporation to position itself as an effective strategic partner in the defence of Canada well into the future. Further, on behalf of the Board, I offer our sincere congratulations to the almost 500 employees of DCC who are the engine of the Corporation's growth and success. They uphold the values of the Corporation on bases, wings and stations from coast to coast to coast, and in support of operations deployed abroad.

John D. McLure
Chair

MESSAGE FROM THE PRESIDENT

I am pleased to report, once again, that the Corporation has exceeded the expectations established in the corporate plan regarding almost all of its operational and financial performance measurements and outcomes. These results define another very successful year.

The Corporation implemented Department of National Defence (DND) capital construction and maintenance programs using a flexible variety of contract mechanisms developed over the years, as well as using, for the first time in a number of years, a "construction management" method of project delivery. Environmental remediation projects continued to make up a significant portion of contract expenditures. The multi-year Distant Early Warning (DEW) Line Clean-Up project is at its peak, and DCC finished the remediation of polychlorinated biphenyls (PCB)-contaminated soil in Saglek, Newfoundland and Labrador. In addition, the Canadian Design-Build Institute presented an award of excellence to the project team for the headquarters facilities constructed for the 2nd Battalion of the Princess Patricia's Canadian Light Infantry at Canadian Forces Base Shilo in Manitoba.

Most DCC service lines grew in 2005–06. In particular, demand for project management support and environmental services increased significantly as clients looked for more support in the planning and definition stage of projects. DCC initiated a new area of expertise to help manage the demilitarization of Canadian Forces (CF) training areas, including the disposal of unexploded ordnance. The total value of DCC services provided to DND increased over 2004–05 by 23% to $42.5 million. The number of DCC employees increased over the same year by 19% to 483. The economies of scale associated with this business growth have allowed DCC to hold billing rates steady for the second successive year. In 2006–07, clients will once again pay the rates introduced in April 2004.

The Corporation has addressed the management challenges presented by continued growth by strengthening corporate support services and management systems, updating and simplifying its position evaluation and classification system, revising its compensation framework, modifying employee benefits, and continuing to enhance the corporate training and development program. All of these initiatives have also enhanced DCC's ability to recruit and retain staff in the current, very competitive labour market. Our employee retention rate dropped to 91% in 2005–06, close to the target minimum desirable rate, and management foresees that the strategic planning and management of human resources will become increasingly important to the sustainable growth of the Corporation in the short and medium terms.

Another important initiative to manage growth while potentially improving the quality of service delivery is the implementation of a stronger functional management matrix. I am convinced that we can leverage resources, knowledge and professional expertise more effectively by strengthening management by service lines, while maintaining a regional focus to manage business and administrative activities effectively. Most national professional service organizations are moving towards a similar concept of operations.

I would like to thank all employees, and my management team, for their contribution to this successful year as we look forward to another active, challenging year delivering defence projects as a strategic partner to the CF and DND.

Ross Nicholls, P.Eng.
President and CEO

GOVERNING LEGISLATION

Defence Construction (1951) Limited was created under a clause of the *Defence Production Act* and was incorporated by Letters Patent pursuant to the *Companies Act* of 1934. It was granted continuance under the *Canada Business Corporations Act* of 1978. The Corporation is listed in Schedule III, Part I of the *Financial Administration Act*, and DCC follows the governance, planning, reporting, and internal and external audit practices as established in Part X of that legislation. The Corporation, commonly known as Defence Construction Canada or DCC, is accountable to Parliament through the Minister of Public Works and Government Services.

MANDATE AND PUBLIC POLICY ROLE

The Corporation's mandate, set out in its Letters Patent, allows DCC to provide a wide variety of property-related services in support of the timely delivery of defence projects or supplies. The Minister of Public Works and Government Services reviewed this mandate and renewed it without change in 2001. In May 2001, a new memorandum of understanding (MOU) between DND and DCC was signed to update the terms of the working relationship.

DCC's traditional business was focused on services related to construction. However, the Corporation has more completely fulfilled its mandate over the past 15 years by also providing other value-added services, such as project management support, environmental services and operational support services.

DCC plays a role in achieving several key policy objectives of the Government of Canada. First, DCC contributes to the results of DND and the CF in the defence of Canada and of world security. DCC's growth in recent years reflects civilian resources' growing support of CF members. The Corporation supports deployed operations, both domestically and overseas, in the areas of construction, maintenance, environmental project and program delivery,

Timber used to build a large World War II-era airplane hangar at 19 Wing/CFB Comox on Vancouver Island has found new life as floorboards and decorative trims for housing projects in British Columbia. The 500-year-old Douglas fir lumber came from the green demolition of No. 1 Hangar at 19 Wing Comox, a building about the size of two football fields. Wood recovered from the hangar, some of the oldest timber in the country, was sold to Vancity Enterprises to be re-used in developments in Vancouver, Victoria and Coquitlam. All material from the building will be used again to create new structures or new products, or will be disposed of safely if it is unusable.

DCC was responsible for arranging and managing the competition for the demolition contract, as well as the management of the construction site. With about 400,000 board feet of lumber salvaged, this project became the largest recycling project in British Columbia at the time. Before its demolition, the hangar most recently served as the home of CFB Comox's 442 Transport and Rescue Squadron. It was home to 407 Squadron and its Lancaster aircraft during the 1950s. During World War II, it was used by the British Commonwealth Air Training Plan to train aircrew.

Drew Craig, 4 Wing Cold Lake's Base Environmental Officer (left), stands with Colonel Greg Matte, the Wing Commanding Officer. Base officials turned to DCC to ensure that Cold Lake's biodiesel fuel pilot program was properly developed. For two years, members of Wing Logistics and DCC's site office worked together to develop and implement the biodiesel trial, officially launched in September 2005. Under this program, 4 Wing will fuel 64 of its 282 ground vehicles with a 1% blend of canola-based biodiesel, becoming the first Canadian Forces base to offer this environmentally friendly fuel. Helping DND meet its environmental obligations is a priority for DCC. If successful, the biodiesel program could be expanded to bases across Canada.

At DCC, hearing directly from the client—DND—is of utmost importance. There's no better way to ensure that DND and the Canadian Forces receive the best service possible than by being accessible and accountable. That's why DCC's Infrastructure Support Services (ISS) hosted an open house for DND personnel in February 2006 at the ISS office, only a block away from National Defence Headquarters in Ottawa. Hans Gartner, ISS Manager (left), shares a word with Major Peter Williams, an engineer with Assistant Deputy Minister (HR-Mil) Engineering. ISS, a section of DCC's National Operations Group, supports DND clients in all aspects of realty asset management.

facilities management and the provision of various specialized professional services.

The Corporation plays a role in Canada's sustainable economic growth, particularly by supporting DND's efforts to reduce greenhouse gas emissions and energy consumption associated with its infrastructure holdings.

DCC also plays a role in meeting the government's policy objective to create a fair and secure marketplace, through its compliance with internal and international trade agreements, using sound procurement practices and ensuring competition through wide access to government business opportunities.

The Corporation works closely with various levels and sectors of the Canadian construction and consulting industries to ensure alignment with industry trends and standard practices. DCC carries out all of its activities in compliance with law and government policy objectives of a more general application, including those related to corporate governance, innovation, employment equity, official languages, access to information, privacy, transparency, environmental protection, ethics and communications.

HISTORY DCC was created in 1951 to respond to the Government of Canada's need for increased national defence infrastructure. Since that time, DCC has played a major role in projects that have helped shape Canadian history: the construction of the Distant Early Warning (DEW) line across the Arctic in response to Cold War threats; the rapid expansion of military bases across Canada; and the development of military infrastructure in France and Germany, as part of Canada's commitment to the North Atlantic Treaty Organisation (NATO).

Based on its expertise in delivering defence projects, DCC has been asked in the past to help other public organizations manage construction programs, including the construction of the Trans-Canada Pipeline and the 1967 World Exposition (Expo '67). DCC has also supported Canada's strategic defence policy objectives by delivering international aid efforts, such as the construction of hydroelectric developments in South Asia and schools in the West Indies. More recently, DCC has been closely involved in DND's programs to rationalize, consolidate and relocate operating units and to decommission redundant facilities. Over that same period, the Corporation has responded to increases in demand for other infrastructure-related services by developing and offering expertise in a number of disciplines, including environmental and facilities management services.

DCC'S PRIMARY CLIENT Operationally and administratively, DCC deals with many organizations within DND. The Infrastructure and Environment Group (IE) of National Defence Headquarters (NDHQ) is the principal point of contact for centrally managed capital construction and environmental programs. Since the chiefs of the maritime, land and air staffs are responsible for construction and maintenance programs at their own facilities, DCC also has significant dealings within their organizations, primarily at the base/wing/station level. Finally, DCC contracts for and manages consulting, construction and environmental services on behalf of a number of smaller organizations within DND, including the Canadian Forces Personnel Support Agency (CFPSA), the Canadian Forces Housing Agency (CFHA), Defence Research and Development Canada (DRDC), the North Warning System Office (NWSO), the national level joint engineering operations staff (J3 Engineer) and NATO Forces with establishments in Canada. As other government departments and agencies assume roles in Canada's changing defence environment, DCC will be responsive to requests for support within the scope of its mandate.

CONTRACTORS AND CONSULTANTS Although DCC creates value for the citizens of Canada, the Corporation does not serve the general public directly. Instead, private sector consultants and contractors constitute the specialized "public" that interacts with DCC. For that reason, it is important for everyone at DCC to be aware of what is happening in the industry.

DCC employees interact with contractors on job sites every day. However, there are also frequent, more formal, exchanges with the Canadian Construction Association (CCA) and its provincial and trade counterparts. These interactions help keep DCC abreast of developments in the industry and bring a useful measure of realism to interactions between DCC and its contractors. DCC keeps in touch with the insurance industry to stay abreast with trends in risk management, and with the surety industry to remain current with developments in contract security. Representatives of DCC continue to sit on committees and maintain relationships with such groups as the Association of

SERVICE LINES AND PRACTICE AREAS

As a procurement and contract management agency, DCC serves as the intermediary between its client on one side, and consultants and contractors on the other. Private sector firms carry out the actual project work. The following are the Corporation's principal service lines and practice areas.

Procurement of professional services, construction services, maintenance services and goods, including procurement and solicitation planning, preparation of tender documents, solicitation and evaluation of bids, awarding of contracts, market assessment and bidability reviews.

Contract Management includes administering contract payments, change management, risk management, document and schedule control, quality assurance, quality audit, dispute mitigation and resolution, claims management, performance assessment and warranty management. The two practice areas that fall under contract management are: 1) commissioning of building facilities and 2) quality audit and evalutation systems, which give the client confidence that all aspects of a project are delivered per the terms of the contract.

Environmental Services include environmental assessments and audits, technical support for environmental remediation, range clearance, unexploded ordnance clean-up and decommissioning, waste management programs, environmental management systems and hazardous material survey coordination.

Project and Program Management Support includes the control of scope, costs and schedule, as well as program planning and the preparation of scope documents, such as terms of reference and statements of requirement.

Infrastructure Support Services include facilities management, production of building condition reports, life safety system management, maintenance contract management, utilities management and recapitalization planning. The following four practice areas fall under the infrastructure and support service line: 1) energy support services, such as advice on an energy performance program, 2) sustainable practises, including support for green building technologies, 3) real property support and realty asset life cycle management, and, 4) support for deployed operations.

The Naval Officer Training Centre's (NOTC's) accommodation building and galley facilities at CFB Esquimalt were officially opened in September 2005 following a successful design-build job coordinated by DCC. These buildings are the first at CFB Esquimalt to fully embrace the "integrated design" concept promoted by Leadership in Energy and Environmental Design, a program that encourages energy-efficient and environmentally friendly design and construction. The total construction cost was $15.6 million. The improvements to the accommodations and dining facilities will further enhance the NOTC's reputation as a leader in naval training.

Consulting Engineers of Canada (ACEC), the Royal Architectural Institute of Canada (RAIC), the Canadian Public Procurement Council (CPPC), and the Canadian Design-Build Institute (CDBI). Keeping current with industry standards is critical to DCC's ability to deliver service. Consequently, DCC encourages its employees to develop their professional skills. The Corporation helps employees maintain industry certifications and designations relevant to their work, such as the CCA Gold Seal and the Project Management Institute's Project Management Professional (PMP) certification.

CANADIAN CONSTRUCTION SECTOR The construction industry is one of Canada's most significant industries in terms of dollars generated, employee base and impact on Canadians. To provide context for the significant contribution that DCC adds to this sector, the following are some industry statistics from two Canadian construction associations.

According to the Canadian Construction Association (www.cca-acc.com), as at December 2005,

- One in 16 jobs in Canada is in the construction industry, and this trend is forecasted to continue through to 2010.
- The bulk of the current and anticipated employment in the construction industry is in Ontario, Quebec, British Columbia and Alberta.
- Most growth in non-residential construction is expected to occur in western Canada and central Canada over the next five years.
- The construction industry's contribution to Canada's gross domestic product increased by 2.9% in 2005.

Additionally, the Construction Sector Council (www.csc-ca.org) reports that

- There are more than 108,000 trade contractors and more than 20,000 general contractors in Canada, and,
- even though the construction industry is a major employer, only 5% of construction firms have more than 10 employees.

Given the fact that the construction industry consists of a large number of small to medium-sized businesses, DCC needs to understand the challenges and the very real, ongoing business threats these entrepreneurs face. To help contractors do their jobs, DCC works to maintain a level playing field, simplify bidding procedures, and stimulate interest in and encourage competition for all of its contracts. At the same time, DCC realizes that contractors need to maintain cash flow, so it is adept at negotiating fairly when changes must be made to projects.

This understanding of contractors, coupled with DCC's historical relationship with its client, enables the Corporation to work successfully with both parties. When differences arise, DCC makes every effort to mediate fairly and reasonably.

CORPORATE FUNDING AND EQUITY STRUCTURE DCC operates under a service billing system and delivers services to DND on a full cost-recovery basis. The Corporation's equity structure consists of 1,000 authorized shares, of which 32 are issued. The Minister of Public Works and Government Services holds the majority (25), with each member of the Board of Directors holding one qualifying share.

Banker: The Royal Bank of Canada
Auditor: The Auditor General of Canada

ENVIRONMENTAL AND SAFETY RESPONSIBILITIES As a corporation, Defence Construction Canada understands that all business activities can have an impact on the environment, and require proper management. Consequently, the DCC Board of Directors and senior management group are committed to the principles of sound environmental stewardship, to exercise due diligence and, as a public institution, to meeting the expectations of Canadians.

The Corporation's operational policies and procedures are designed in such a way as to minimize negative environmental impacts at all work sites. In 2005–06, DCC turned its focus to examining the environmental soundness of activities throughout its own day-to-day internal operations.

Last year, the Corporation highlighted a strategy to create a *greener* office environment. Early in the year, DCC started a waste reduction initiative that included a commitment to reduce paper consumption by 20% over a two-year period. To assist employees in reaching this goal, several actions were taken, including adopting a policy where the Corporation purchases duplex printers exclusively. In addition, the Corporation has identified energy efficiency as a target, and now, only Energy Star qualified equipment, such as computers, photocopiers and appliances is purchased. In the second half of the year, a new corporate-wide green procurement policy was published, to take effect in 2006-07. This policy includes several additional goals that relate to office fit-ups, other miscellaneous supply purchases and travel.

In addition to these internal practices, DCC monitors potential impacts of its management of construction and other projects across Canada. DCC's environmental management framework requires employees to report environmental incidents that occur at its work sites.

An environmental incident is defined as:

Any specific or recurring event(s) that lead to an undesired potential or actual impact on the biophysical environment, the atmosphere, or human health or safety. Such incidents can arise from DCC or contractors' activities in offices or work sites or through third-party activities that affect the.e sites. Incidents include any legal or regulatory non-compliance, regardless of a physical incident having taken place.

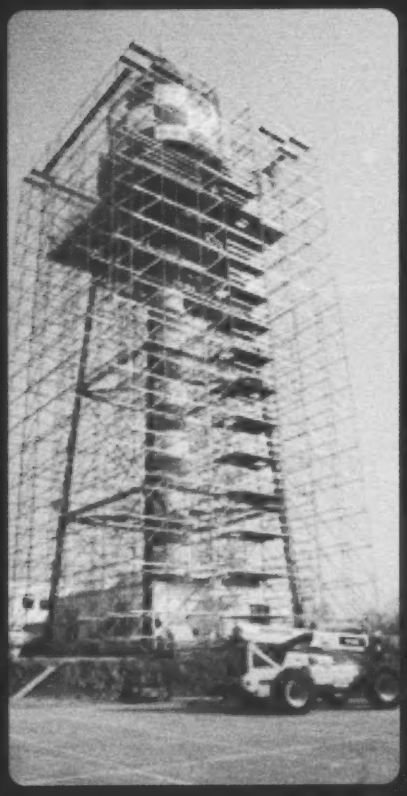
There is an established set of criteria used to determine which of these incidents is reported, for example, fuel spills greater than 50 litres. Of the five reports received in 2005–06, none of these reports exceeded the criteria although each incident was reported to the client. Of these five reports, none were determined to have resulted from DCC management actions. Any spill, release or other environmental incident is of major concern to the Corporation. To ensure the Corporation's staff are aware and up to date of potential issues, new environmental lessons learned bulletins are issued on a regular basis.

MAINTAINING A SAFE WORK ENVIRONMENT The management of employee occupational health and safety remains a key concern of the Board, Senior Management, and the Environmental, Safety and Health Committee. DCC continues to invest in safety related communications and training activities.

Employees have developed an increasing awareness of health and safety issues and the Committee and the National Safety Coordinator are highly committed to maintaining DCC's excellent record as a safe workplace. The goal is to have no incidents relating to health and safety occur. For reporting purposes, the Corporation tracks incidents that result in lost work time. In 2005–06, nine incidents involving DCC employees were reported.

The total number of lost work hours for these incidents was 197 hours or .02% of total employee hours. This number is higher than in 2004–05, when eight incidents resulted in 70 hours of lost work time. Two incidents which contributed to the increase in the number of lost hours relate to one employee slipping on ice, and the other relates to a pre-existing respiratory condition of an employee. Neither of these incidents were the result of negligence on the part of DCC's management or administration.

Accessibility matters. Project Manager Rick Orlando stands beside a new passenger elevator at the TEME (Transport, Electrical, Mechanical, Engineering) Building in Willow Park, CFB Halifax, in October 2005. DCC constructed a building extension to accommodate the elevator and shaft, new steps, a power door and accessible parking. Orlando, a retired major, was seconded to FCE (Formation Construction Engineering) Division to direct the base's Barrier-Free Accessibility Program.



DCC is coordinating the contract for a facelift of CFB/8 Wing Trenton's 50-metre steel communications tower. The 75-year-old structure will be sandblasted, holes will be fixed, and both the interior and exterior will be re-painted, all while the structure continues to serve as a functioning communications tower for Wing Telecommunications and Information Services Squadron. Scaffolding for the $624,000 project was erected in March 2006. One of DCC's biggest concerns with this project is ensuring a safe work environment during intense windstorms.

In April 2006, DCC completed a new roof installation on the historic Seaforth Armoury in Vancouver, a $900,000 project. The Armoury will also receive a seismic upgrade, allowing the facility to serve as the Army's main point of response to domestic disasters in the Vancouver region, including earthquakes. DCC and DND's Directorate of Construction Projects and Engineering Policy are administering the seismic design project, which will upgrade the interior structure to meet 2005 National Building Code of Canada standards. Interior structural upgrades and renovations will begin next year. An interior refit will upgrade several components of the Armoury. It will involve integrating beams into various parts of the interior, including a fully functional office space, as well as upgrading the building's heating, ventilation and electrical systems.

SUCCESS FACTORS

Five characteristics of DCC's services allow the Corporation to deliver quality service consistently to DND operations. These factors have a direct impact on the viability of the Corporation.

Focus:
For more than half a century, DCC has had a single focus on a major client and, consequently, has developed an understanding of the client's needs and preferred approaches. This unique characteristic makes DCC unlike any other organization of this size in either the private sector or the public sector.

Service:
Standing midway between the public and private sectors, DCC knows how both the construction industry and the government work. This knowledge allows DCC to effectively communicate requirements to both the client and external service providers.

Delivery:
DCC provides immediate and reliable access to technical and administrative expertise and, unlike many providers of similar services, does so on a continuing basis at the work site.

Flexibility:
As a Crown corporation, DCC can manage its staff and administer projects with efficiency and flexibility equal to that of the private sector.

Value:
DCC seeks cost-effective solutions to DND's technical needs and maintains low overhead costs in providing its services.

OPERATING ENVIRONMENT 2005–2006

During the planning process for 2005–06, several factors were cited as having a potential impact on the course of DCC's business for that year. Changes in client resources or structure, economic swings in the industry and the labour force, as well as the impact of some new government policies were considered. There were varying degrees of impact in each of these areas.

DCC'S PRIMARY CLIENT – THE DEPARTMENT OF NATIONAL DEFENCE

The nature of DCC's business is linked closely with that of the Canadian Forces (CF) and the Department of National Defence (DND). Consequently, what Canada's two defence organizations experienced over the past year has had an impact on DCC's business. In 2005–06, the CF Transformation process was the major occurrence affecting the client.

Over the past several years, there has been a shift in the national and international security environment. The types of threats that have an impact on stability at home and abroad have changed, from the traditional threat of attack by another country by sea, land or air, to asymmetric threats by groups or individuals.

Canada's response to this is to realign the CF through transforming its command structure into four formations to suit a new focus on joint operations: Canada Command (CANADA COM), accountable for defence in North America; the Canadian Expeditionary Force Command (CEFCOM), responsible for defence outside North America; Canadian Special Operations Forces Command (CANSOFCOM), capable of responding to terrorism threats to Canadians and Canadian interests abroad; and the Canadian Operational Support Command (CANOSCOM), accountable for infrastructure and logistical support.

DCC is expected to align itself accordingly with the outcomes of CF Transformation. How the implementation of its service matrix management system will position DCC to respond better to the final outcome is not yet defined. DCC will position itself, as always, to provide support to DND when it is required.

The relocation of Canadian troops in Afghanistan from Camp Julien in Kabul to Khandahar saw an end to DCC involvement in the area for the time being. However, as the situation evolves, DCC stands ready to support DND as required.

CANADIAN POLICY ENVIRONMENT

Over the past several years, events in the private and public sectors have had a significant impact on the way business is conducted. Public stakeholders demand complete transparency and accountability for all operations and management activities. DCC has participated in government-wide policy reviews and strives to ensure that its business practices are in line with the intent of central agencies. The Corporation is committed to implementing promptly and proactively any regulations, guidelines or best practices that result from these reviews.

Halfway through 2005–06 there were several reviews of direct relevance to DCC's business. The Parliamentary Task Force on Procurement Reform concluded that "there is a need for speed, ease, fairness and transparency, cost-effectiveness, in a procurement system, and [it] is based on a foundation of integrity, accountability and transparency." The Task Force also made a number of recommendations regarding personnel who work in contracting. For example, it called for "recognition of the need for appropriate qualifications and abilities, and the establishment of training programs and a centre of knowledge management to ensure ongoing human resource development." DCC has already integrated these elements into its business philosophy and operations.

Finally, early in 2006, the *Federal Accountability Act* was released. DCC is committed to the principles of this act, and, as it always has in the past, monitors all trends and activities of the Treasury Board Secretariat and public service to ensure that it remains compliant with all reforms.

The Corporation will implement any recommendations arising from studies or policy changes that affect DCC. However, the Corporation is confident in and proud of its solid track record to date regarding its corporate performance and record of accountability, which the findings of regular internal and external audits have reinforced.

ETHICS AND VALUES Professional ethics and personal integrity have been key elements of DCC's business conduct for 55 years. Good corporate governance and high expectations in this area are a foundation of daily life at DCC, maintained through internal quality management, auditing and strong leadership. The Auditor General's last three Special Examinations did not identify any significant deficiencies in DCC's business practices. DCC employees are aware of their right to report questionable practices directly to the Board through the disclosure policy of the Code of Business Conduct. In fall 2005, the Parliamentary Standing Committee on Government Operations and Estimates acknowledged the solid performance of the President and Chief Executive Officer and unanimously supported his reappointment for a further four-year term. The Corporation will continue to monitor changes in government policy, especially those that relate to ethics, and will modify its business procedures as required.

Building solid relationships helps DCC continue to deliver efficient projects for its client. The Directorate of Construction Projects and Engineering Policy (DCPEP) is one of the DND organizations DCC works with. Last March, the two parties unveiled the first DCPEP/DCC Joint Process document. More than a year in the making, this document delineates roles and responsibilities related to consultant contract management. In this photo of the unveiling, Ron de Vries, DCC's Vice-President, Contract and Client Services, joins Mike Freemark, DCC's Senior Technical Advisor; Marie-Reine Mereb, DCC's Project Support Team Leader; Allan Barnett, Project Manager, DCPEP; and Lieutenant-Colonel Marc Desjardins, DCPEP.

DCC has been managing the removal of the German Army Training Establishment Shilo (GATES) since 2001. This Tracked Vehicle Maintenance Facility, built in 1990, was demolished in March 2006. This 20,000-square-foot structure served as the flagship GATES facility. It included 12 vehicle bays and two service pits, two work bays, a soundproof engine test facility, and three overhead 20-ton capacity cranes. The decommissioning and demolition program will conclude this year, clearing space for CFB/Area Support Unit Shilo's future development.

A hundred-person parade on May 12, 2005, marked the official opening of the 17 Wing Logistics Complex and Wing Telecommunications and Information Services Squadron (WTISS) building. This project engaged 53 contractors and created some 165 civilian jobs in Manitoba, making it the fifth-largest project in the province in 2004 during the height of construction. It is also one of the largest air force buildings in Canada. DCC became involved in 2002 and handled contract coordination, tendering and design reviews. 17 Wing comprises units that support and conduct flying operations and training functions.

BUSINESS GROWTH AND WORKFORCE FACTORS As anticipated in past planning sessions, DCC's business has grown on many fronts. Last year, staff numbers increased by 19% and revenue increased by 23%, continuing the growth trend DCC has experienced over the past several years. Although DND's overall spending on construction and maintenance has remained consistent at approximately $445 million annually, the Corporation has grown due to increasing demand for specialty services, such as environmental remediation, facilities management and project management support. Last year, 32% of DCC's total revenue came from these service areas.

The increase in staff strength has predictably changed the demographics of the company. At year end 64% of DCC employees had been with the Corporation for less than five years. This is a significant number of people without much long-term exposure to the culture, history and practices of the Corporation. A strong and knowledgeable team that understands the scope of its authority is essential to sound leadership for the Corporation. As a result, DCC increased the resources aimed at strategic recruitment; employee orientation, training and development; internal communications; and succession planning.

Some personnel issues remain a constant challenge for DCC. This includes finding qualified personnel in remote areas, and finding personnel with the appropriate linguistic skills and the unique combination of technical skills. This is increasing in difficulty as the Corporation's services become more and more specialized. Last year, while DCC's retention rate remained within its target, the Corporation recognizes that strategic recruitment and retention is a priority.

CONSTRUCTION INDUSTRY The construction industry experiences activity cycles related to the economic influences of house building, manufacturing and resource development, to name a few factors. The Canadian industry is currently experiencing a boom, and demand is surpassing supply in some areas of the country. This situation affects the quality and number of contractors who respond to DCC's tenders, so the Corporation is monitoring interest in procurement opportunities to ensure good competition for contracts.

High demand in the industry also affects DCC's ability to recruit and retain qualified staff. Additionally, the global increase in oil prices has resulted in a surge in the oil and gas industry. Consequently, this sector is competing with DCC for technical staff, particularly in the western regional provinces of Alberta and British Columbia. Despite this increased pressure, over the past several years, DCC has been able to attract and retain adequate staff to fulfill its mandate.

SERVICE DELIVERY

Since DCC's mission is to deliver high quality, timely and efficient defence infrastructure services, achieving excellence in service delivery remains at the forefront of DCC's corporate strategy. Over half a century of work experience with DND has given the Corporation in-depth knowledge of client requirements for defence and security-related projects. Even with this niche, continuous improvement is always a priority. DCC regularly takes steps to maintain and develop new modes of service delivery.

CONTRACT SERVICES

DCC's Contract Services Division (CSD) links DND with the contractors and suppliers who can fill Canada's defence infrastructure needs. CSD provides these procurement services across Canada and overseas. It understands DND's demanding operational requirements, the rigour of the federal procurement policy and the unique practices of the construction industry.

Every year, approximately 1,500 contracts are issued for professional services, construction, goods, and other infrastructure-related work. CSD's innovative, responsive and efficient procurement processes have been designed to meet client and industry needs. The DCC ISO 9001 certified quality program ensures consistent delivery, enhanced client input and continuous improvement. The following processes are a few of the options.

Quick response tenders—DCC establishes a source list of contractors at each base to respond to the specific construction needs of each location. Depending on the requirement and value, these contracts can be in place within 14 calendar days.

Tender boards—Minor construction projects that are equally time sensitive but more complex in nature are candidates for this process. The target time from notice to award for this process is 25 calendar days.

Design-build—This contract option is used to deliver a portion of the major capital construction program. While the time required to contract under this option is longer than the time needed for other standard processes, the overall project delivery time has been reduced from the traditional design-build method.

DCC has many other infrastructure-related tender processes; each designed to meet a particular requirement. The following processes are some of the options.

Best value contracts—In design-build projects where the input of proponents in areas such as energy efficiency and maintenance considerations can contribute to lower building life cycle costs, these factors may be evaluated, along with construction cost, to determine which proposal is the best overall value for the client. A rigid, transparent evaluation process is used, since the best value submission may not represent the lowest capital cost.

Construction management—Contractor expertise is engaged to help manage multiple construction activities.

Energy performance contracts—Firms are contracted to make infrastructure improvements on DND facilities with payment made from the resulting energy savings.

Standing offers—Firms are pre-selected to provide specific services, as and when required.

Facility maintenance contracts—Expertise is contracted for long-term operation and maintenance of DND facilities.

TIMELINESS OF PROCUREMENT

Client groups within DND want to begin project work as soon as possible after receiving internal approval. Since the timeliness of procurement is important both to DND and to the industry, this activity is reported as a key performance indicator. DCC intentionally sets aggressive targets for the timeliness of construction and consultant procurement because DND values expediency. The target represents a reasonable length of time from the point at which the Notice of Proposed Procurement (NPP) is received from the client to the time when the contract is awarded to the contractor or consultant. Factors that affect performance against the targets include the availability of funding, bid anomalies, and changes to the scope and value of the work during the procurement process. Additional time that may be required as a result of these is not included in the targets and often accounts for exceeding the performance targets.

The following two tables demonstrate DCC progress at the end of 2005–06 in terms of timeliness of construction and consultant procurement. To provide a context for these results, the median number of days from NPP to award of the contracts is provided in the tables. The median is used because, based on historical trends, and the multitude of project specific variables, it is reasonable to expect that DCC can achieve the targets 50% of the time. In Table 1, the 2004–05 results for the design-build contracts are not reported, as there were only four of these contracts awarded during the year, and exceptional circumstances make the results statistically unreliable.

In 2005–06, there were no design-build contracts awarded on behalf of DND. The reduced number of design-build contracts is not indicative of a new trend in the use of design-build as a project delivery method, it is simply a cyclical phenomenon and is dependent upon the requirements of the client.

DCC recognizes the time and effort that the industry expends to prepare and submit tenders. Consequently, to reduce the risk of a failed tender, DCC screens all projects for bidability. At year-end, 93.6% of DCC tender calls resulted in the award of a contract. This is down from 99.5% in 2004–05. The most frequent reason that tenders do not result in contracts is that the contract price exceeds the approved budget amount. To date, DCC is meeting the industry expectations for a reasonable turnaround time to award a contract after a tender has closed.

Construction Procurement – Table 1

	RESULTS: 2004-05 *(year end)*			RESULTS: 2005-06 *(year end)*		
Indicator	**Target**	**Actual Median Number of Days to Award**	**Number of Contracts**	**Target**	**Actual Median Number of Days to Award**	**Number of Contracts**
Regular tender call	35 days	34 days	152	35 days	34 days	217
Tender boards	25 days	27 days	485	25 days	26 days	427
Quick response tenders	14 days	13 days	264	14 days	14 days	223
Design-build tenders	120 days	n/a*	4	120 days	n/a	0

**Sampling of contracts was too small to provide a meaningful picture of activity.*

Consultant Procurement – Table 2

	RESULTS: 2004-05 *(year end)*			RESULTS: 2005-06 *(year end)*		
Indicator	**Target**	**Actual Median Number of Days to Award**	**Number of Contracts**	**Target**	**Actual Median Number of Days to Award**	**Number of Contracts**
SELECT	25 days	26 days	282	25 days	27 days	337
One-step proposal	60 days	57 days	79	60 days	55 days	105
Two-step proposal	120 days	152 days	5	120 days	125 days	12

The completion of CFB Suffield's Indoor Training Arena, part of the Counter Terrorism Training Centre, will help the military prepare its response to chemical, biological, radioactive and nuclear terrorist threats. The $3.8-million design-build project, awarded in January 2005, was completed in just 10 months. The training facility is unique, because it gives soldiers a year-round venue for training using simulated chemical and biological agents. The facility contains a subway scenario, a large vehicle detection and decontamination scenario, and a multipurpose area. The multipurpose area has a structural ceiling grid with a system of moveable wall panels, which can be used to provide scenarios of various shapes and sizes.

Contract Coordinator Dave Long (left) and Paul Ireland, Site Operations Manager, survey a parking lot adjacent to the Theatre Activation Team (TAT) warehouse at CFB Kingston, which is currently under construction. DCC is providing contract coordination for this $3.2-million project. The 1,800 square metre building will hold deployment stores for the Canadian Forces Joint Signal Regiment, which deploys advance headquarters to prepare operational theatres. The TAT warehouse is designed to store, stage and load all the items the Regiment needs for the advanced staging and organization of a deployment of up to 200 people in up to two locations. The new facility will house vehicles, personnel and equipment in one secure compound, which will allow the unit to respond to missions more effectively.

Coleen Purdey-Morrison, a Contract Coordinator at 8 Wing/CFB Trenton, works with Brad Barker, Chief of Technical Services at the Trenton office of the Canadian Forces Housing Agency. The two inspect a recent kitchen upgrade in March 2006 at one of the base's 668 private married quarters (PMQs). DCC coordinated the installation of new insulation, a vapour barrier and drywall, as well as new kitchen cabinets and fixtures. Maintaining quality control for Canadian Forces personnel in partnership with the Canadian Forces Housing Agency is another way DCC continues to add value for the Department of National Defence.

The Canadian Maneuver Training Center (CMTC) Exercise Control (EXCON) officially opened its doors at CFB Wainwright on October 18, 2005. Construction began on the $5.7-million facility in August 2004. It was designed and built to revolutionize the way DND trains soldiers and commanders. DND required a facility that could be set up to allow personnel to practise tactics used in the field. So DND turned to DCC, which provided contract coordination, project management support and quality auditing. The new facility houses specialized training equipment to accurately simulate battle scenarios. The centre can field up to 500 actors to simulate all situations. Its mission is to help prepare Canadian soldiers for deployment.

OPERATIONS

The Operations Division delivers a broad range of services required to construct and maintain DND facilities, including control towers and hangars, dockyards and armoured vehicle maintenance facilities, community centres, housing, barracks, clinics, water and sewer systems, communications systems, roads and grounds. Other services include firing range inspections, facilities management, project management support, facilities condition reporting, building systems troubleshooting, rapid response to urgent security needs, program management, building commissioning and training.

Throughout 2005–06, DCC provided support to DND for major construction projects across the country.

DCC is helping DND deliver on its environmental commitments. One example of this effort is the construction of the 2nd Battalion, Royal Canadian Regiment (2 RCR) Operations Centre at CFB Gagetown. The second phase of this $22-million project is nearly complete and will ensure the Regiment has a modern, energy-efficient facility to support operations in Canada and abroad. Green construction is an integral aspect of this project, and DCC is helping DND meet high environmental building standards. The building will meet Leadership in Energy and Environmental Design's Silver Standard. The project incorporates solar heating and uses greywater (essentially, recycled building water) for toilet flushing, an innovation that ensures sound water conservation.

Atlantic Regional staff also supported DND at CFB Gagetown through the Master Realty Asset Development Program (MRADP). During the past year, several MRADP projects were launched, including a $17-million, 250-person Barrack Block, and a $4.3-million upgrade of the primary electrical system. Staff members at CFB Greenwood in Nova Scotia also helped complete a new $8.9-million training facility, as well as Phase 2 of the Lower Zekes Brook Remediation Project, valued at $2.3 million. In Gander, Newfoundland, DCC procured an energy performance contract worth $1.2 million.

The Quebec Region experienced another busy year. It completed three contracts at the Citadel with a total value of $2.3 million, as well as a $4.5-million structural roof improvement program at the Garrison. The commissioning teams at Valcartier, Bagotville and Farnham enhanced their service offerings. On the environmental front, Quebec staff carried out significant groundwater and surface water monitoring, drilling and testing for TCE contamination.

Ontario Region staff advanced the London Consolidation Project with the opening of the Captain Neil Logistic and Maintenance Facility at Area Support Unit (ASU) London. Operational since April 2006, the new $16.5-million facility houses ASU London supply, maintenance and transport assets, as well as quartermaster stores for local 31 Canadian Brigade Group units. A new medical/dental wing, which replaces older offices, also provides state-of-the-art health care to garrison personnel. As well, in July 2005, Ontario Region completed an $18.2-million renovation of two buildings for quartering trainees at CFB Borden.

Last year saw the completion of several major projects in the Western Region, including a $53-million phase of the Fleet Maintenance Facility project at CFB Esquimalt, the $54-million Colwood Refuelling Facility (F-Jetty) and the $16-million Naval Officer Training Centre, all in British Columbia. DCC also finished a $4-million Indoor Training Arena for Defence Research and Development Canada at CFB Suffield, where Canadian Forces personnel can train for counter-terrorism operations. In October 2005, CFB Wainwright's new Canadian Manoeuvre Training Center (CMTC) EXCON opened. This $5.7-million project revolutionizes the way DND trains soldiers. Western Region also expanded business development activities, particularly project management support, and developed a heritage building review service for DND.

CONTRACT MANAGEMENT SERVICES

One of DCC's core competencies is contract management. The Corporation provides many services to support the design, construction, renovation and maintenance of a wide variety of facilities for DND's infrastructure and environment program. Key contract management features include the following: contract administration, regular client reporting, coordination of expert services, monitoring of construction schedules, change management; certification of progress payments, certification of contract completion, document control, dispute resolution, and resolution of contractor performance issues. In addition to the activities described above, the following two practice areas fall under contract management.

Commissioning: DCC's capabilities in mechanical, electrical and other infrastructure-related disciplines ensure that building systems are designed, installed, functionally tested and capable of meeting the client's operational needs before the facility is turned over to the client.

Quality Audit and Evaluation: DCC uses a comprehensive system to assess project and construction management processes. An integrated series of activities focuses on investigating and confirming whether processes and activities comply with contract and quality requirements. Quality auditing gives the client confidence that the contractor has achieved the quality requirements of the contract. It also identifies potential areas of nonconformance and ensures that they are tracked and corrected.

Lynda Lenfesty, Manager of Environmental Services (left), and Meghan Hendry, an Environmental Coordinator, purge a groundwater monitoring well at 8 Wing/CFB Trenton in October 2005. This type of test ensures that formation water is collected regularly for sampling. DCC's Environmental Service Line offers DND access to staff who can coordinate environmental assessments, remove and manage hazardous materials, detect and remove unexploded ordnance, monitor effluents and provide many other specialized services.

ENVIRONMENTAL SERVICES Since the early 1990s, DCC's core staff of environmental specialists has helped DND implement its environmental initiatives — in particular its sustainable development strategy. The Corporation helps DND meet environmental performance targets, comply with regulatory requirements, and manage due diligence and risk. Selected environmental services include the following: environmental impact and site assessments, site remediation and decommissioning, environmental support for project and program management, sustainable development strategy support, policy, compliance and advisory services, waste management auditing and planning, and environmental monitoring and compliance auditing.

PROJECT AND PROGRAM MANAGEMENT SUPPORT DCC provides a range of fully integrated project management services to complement DND capability and resources. These vary from identifying and analyzing problems to the planning, design and construction phases of a project. The Corporation recognizes the importance of meeting established standards and many of its project managers hold industry recognized certifications. Project management support services offered range from specific tasks to support DND project managers, to turnkey project services and program management.

INFRASTRUCTURE SUPPORT SERVICES DCC can provide its client with a single window to comprehensive infrastructure support services for its capital program that results in cost-savings and efficiencies for the client.

The infrastructure services that DCC offers include facilities management, production of building condition reports, life safety system management, maintenance contract management, utilities management and recapitalization planning. The following four practice areas fall under the infrastructure and support service line.

Energy Support Services: DCC provides specialized assistance to bases in the areas of co-generation and analysis of re-capitalization requirements. This assistance includes energy performance contracting services.

Sustainable Practices: DCC provides expert advice on sustainable practices, including green building technologies and LEED certifications.

Real Property Support: This advisory service includes realty asset life cycle management from the time the client identifies a need for such management until the client disposes of the real property.

Deployed Operations Support: An important part of DCC's mandate is to help DND to both meet its operational requirements and comply with federal contracting policies. DCC takes the expertise it already provides at bases and wings and brings them to an operational theatre. Support services for deployed operations include a variety of procurement, contract management, environmental and project management support.

SERVICE DELIVERY HIGHLIGHTS

TRACKING CLIENT SATISFACTION Completing each project or task to the satisfaction of the client is critical to the success of DCC operations. To this end, the Corporation tracks client satisfaction as one of its key performance indicators. DCC administers these surveys through face-to-face interviews, at the convenience of the client.

Each office surveys the client representative responsible for each service agreement, and collects feedback by service line. Many service agreements involve more than one DCC service line. Surveys are administered on a staggered schedule throughout the year in each region, with the DCC representative often linking the survey interview with another business visit to minimize client interruption.

Over the past several years, the Operations Division has worked to develop a meaningful and relevant method for collecting client feedback. DCC representatives interview clients individually, in person, once a year. Each client has the opportunity to comment on the service DCC provided on all projects that the client was involved in. Overall, the data and feedback show that DND is satisfied with the quality of DCC service delivery. In 2005–06, DCC collected 503 surveys, compared to 660 surveys in 2004–05. The overall result is that in 98.6% of the cases, DCC met or exceeded client expectations. The number of surveys is indicative of the number of client representatives that DCC deals with, and not necessarily the number of projects. That is to say that a client representative may be responsible for more than one project. In addition, for this calculation, the scores are weighted according to the value of each service agreement. For example, a survey result where the contract value is $1 million would be weighted more heavily than a survey result on a contract where the value is $10,000.

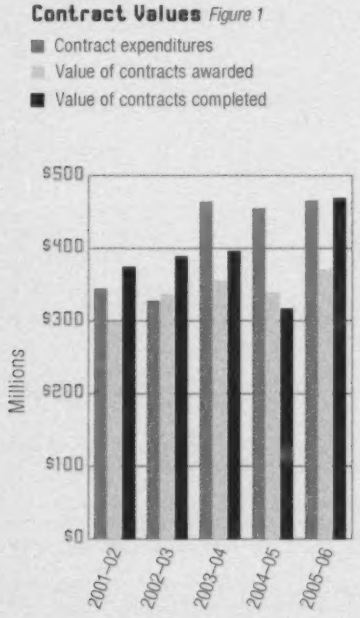
Client satisfaction reports are scored based on a scale of one to five. A score of three meets expectations, and a score of four or five surpasses expectations. Data collected during 2005–06 shows that 66% of all surveys received a rating of four to five, 27% of all surveys received a rating of three to four, and 7% of all surveys received a rating of less than three.

DCC considers all feedback received during this process and swift action is taken where required, especially for those surveys that receive a score of less than three. Each year, DCC receives a range of feedback. Typically, when the client identifies issues, they usually relate to specific incidents that can fall into one of several categories such as communications, administrative procedural problems or staffing concerns. These matters are addressed by DCC quickly. In 2005-06, the complaints did not indicate any wide-ranging pattern of concern.

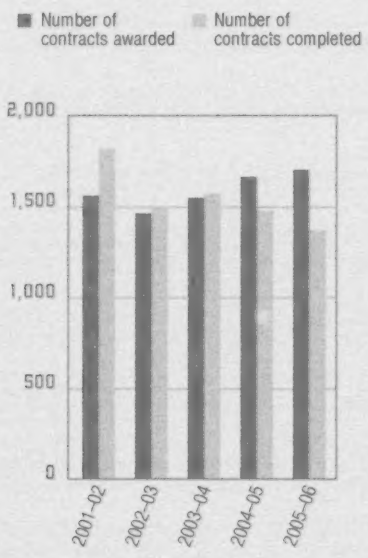
Overall, surveys in 2005–06 have shown that DCC construction contracting and contract management met expectations overall, but the client did suggest that DCC could improve the speed of some of its processes, and in one case the client expressed concern over issues related to deficiencies and warranties. Client satisfaction has received a consistently positive rating over the past few years.

Figure 3 describes how often DCC meets its contract scheduling targets. A key component of client satisfaction is schedule control. Consequently, DCC monitors timeliness of construction contract completions and works with the client to

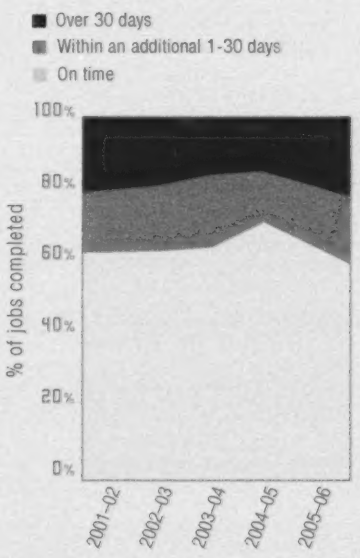
Contract Values *Figure 1*



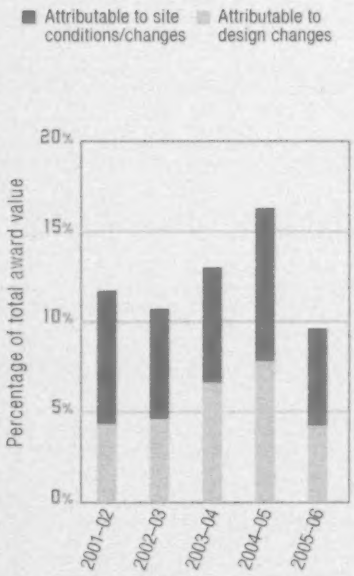
Number of Contracts Awarded and Completed *Figure 2*



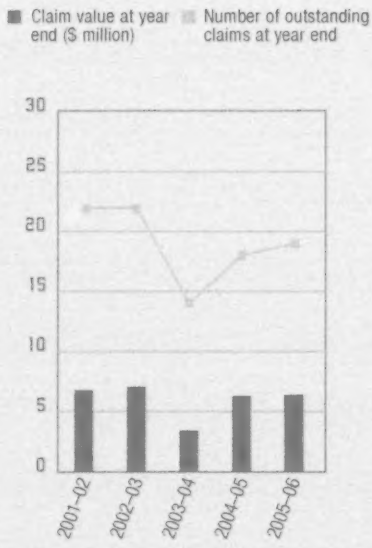
Timeliness of Construction Contract Completions *Figure 3*



Change Order Values *Figure 4*



Legal Claims at Fiscal Year End *Figure 5*



minimize schedule slippage. When slippage does occur, DCC ensures that DND knows the reasons. In 2005–06, 62.0% of completed construction contracts were finished by the pre-established completion date. Another 18.0% were completed within one to 30 days, and 19.0% were completed over 30 days. Although this performance is a decrease from 2004–05 when 72.0% of contracts were finished by the pre-established completion date, and 14.0% were completed within one to 30 days, it is well within the trend of the past five years. DCC has not set formal performance targets in this area, but will do so in the next planning period. DCC tracks this information and keeps the client informed in order to help manage the schedule risks associated with the construction.

Figure 4 describes the amount of cost growth on all construction projects. On the basis of 570 contracts completed in 2005–06, the total value of change orders issued represented 9.6% of the original award value of the contracts. Design changes accounted for 5.4% of the increase and 4.2% was a result of unexpected site conditions. This combined amount of 9.6% of changes is within the normal trend of the past few years. In 2004–05, there was a significantly higher rate of cost growth compared to past years. This can be explained by a single anomalous contract. Without that contract, for 2004–05, the cost growth would be recorded as 6.21% design changes, 3.63% as site conditions for a total of 9.84%. Although no formal targets are set for this indicator, DCC tracks this information to help keep the client informed, and to help the facility users manage any schedule risks associated with the construction.

Figure 5 describes a direct indication of DCC's efforts to protect the interests of the Crown can be found in the dollar value of contract claims before the Courts at any given time. A balance must be struck between treating contractors fairly and ensuring the government receives fair value for contracted commitments. The claim trend over the last several years as indicated in Figure 5 represents only contract claims filed in court. In 2005–06 DCC closed three claims that were settled for a total value of $61,000. As at March 31, 2006, there were 19 claims outstanding for a total value of $6,442,000.

Contract Expenditures 2005-2006 – Table 3 *($000's)*

	CONSTRUCTION CONTRACTS	PROFESSIONAL SERVICES	TOTAL
Atlantic Canada			
Gagetown, NB	$28,761	$1,338	$30,099
Goose Bay, NL	1,776	2,733	4,509
Gander, NL	804	430	1,234
Greenwood, NS	19,216	1,316	20,532
Halifax, NS	29,036	3,971	33,007
Other	337	1,324	1,661
Subtotal	**79,930**	**11,112**	**91,042**
Quebec			
Bagotville, QC	9,798	618	10,416
Montreal, QC	8,357	1,249	9,606
Valcartier, QC	23,380	3,799	27,179
Subtotal	**41,535**	**5,666**	**47,201**
Ontario			
Borden, ON	19,678	1,135	20,813
Kingston, ON	11,178	1,978	13,156
London, ON	19,026	929	19,955
North Bay, ON	8,712	211	8,923
Ottawa, ON	5,154	2,830	7,984
Petawawa, ON	13,595	4,214	17,809
Trenton, ON	6,936	980	7,916
Toronto, ON	12,250	307	12,557
Subtotal	**96,529**	**12,584**	**109,113**
Western Canada			
Calgary, AB	576	198	774
Chilliwack, BC	1,230	262	1,492
Cold Lake, AB	12,672	1,006	13,678
Comox, BC	6,769	559	7,328
Edmonton, AB	14,033	660	14,693
Esquimalt, BC	27,189	2,926	30,115
Moose Jaw, SK	9,855	396	10,251
Suffield, AB	21,877	761	22,638
Shilo, MB	11,822	494	12,316
Winnipeg, MB	14,522	518	15,040
Wainwright, AB	24,016	1,077	25,093
Subtotal	**144,561**	**8,857**	**153,418**
Northern Canada	**29,196**	**3,433**	**32,629**
Other	**5,830**	**6,060**	**11,890**
Totals	**$397,581**	**$47,712**	**$445,293**

GOVERNANCE

Members of the DCC Board of Directors are appointed by the Governor-in-Council on the recommendation of the Minister of Public Works and Government Services, through whom DCC reports to Parliament. The Chair of the Board is separate from the CEO and the Board is able to operate independently of management. The Board has designated a lead director for governance issues in recognition of the vital importance of the Board's stewardship responsibilities. In addition, both the Chair and the CEO have participated in consultations carried out by the President of Treasury Board and the Treasury Board Secretariat (TBS) concerning proposed changes to governance practices. DCC will adopt any of the recommendations endorsed by the Treasury Board that will improve the Corporation's solid track record in this regard. The Board of Directors' current activities to safeguard the interests of the Corporation, its shareholders and stakeholders can be summarized under the following headings:

STRATEGIC PLANNING The Board provides input to management on emerging trends and issues, and it reviews and approves the Corporation's strategic plans. Planning approval includes financial policies, budgets and expenditures. Strategic considerations also include succession planning for senior managers, including the CEO.

PERFORMANCE MONITORING AND EVALUATION The Board monitors corporate performance against strategic and operational plans, ensuring that adequate management information is received and performance measures are in place. The Board assesses whether the Corporation's public policy objectives and statutory mandate are being fulfilled. The Board also monitors, evaluates and reports on the performance of the CEO. The Board does not formally assess the effectiveness of its own performance, or that of individual directors, although it will respond positively to the eventual direction by the Government in this regard.

RISK MANAGEMENT The Board understands the principle risks inherent in the corporation's activities and ensures that management exercises sound risk management. The adequacy and integrity of the internal control systems are verified by a robust audit regime that includes cyclical internal audits by an independent third-party firm that is selected by, and reports directly to, the Audit Committee of the Board. With the assistance of the auditors, the Board is able to ensure the integrity of information systems and management practices. DCC employees are aware of their right to report questionable practices directly to the Board through the disclosure policy of the Code of Business Conduct.

COMMUNICATIONS The Board undertakes effective communication with stakeholders including the Minister, senior management of the Corporation's client (DND and the CF), and with central government agencies and industry organizations. Through active, open communication the Board of Directors maintains an excellent working relationship with management.

BOARD RENEWAL AND DEVELOPMENT The Board defined a profile of the skills, experience and competencies required to meet the governance requirements of a Crown corporation. This profile represents a balance of public and private sector talent, with experience in fields relevant to the Corporation's business, including engineering, construction, law, finance, general management and public administration. Further, it has created a Nominating Committee which, through the Board, has provided input to the Minister for the re-appointment of the President and Chief Executive Officer for a further term to 2009 and for the extension of the term for the Chair by one year to 2007. Directors have ample opportunity for orientation and training in support of fulfilling their obligations as Board members.

DCC's Board of Directors safeguards the interests of the Corporation, its shareholders and its stakeholders. Front row (left to right): Mr. Ross Nicholls (President of DCC), Mr. John D. McLure (Chair), Mr. Jean-Claude Garneau. Back row (left to right): Ms. Karen Ellis, Ms. Nancy Penner.

Board of Directors – Remuneration – Table 4

BOARD COMPENSATION	APPOINTEES	ANNUAL RETAINER	PER DIEM
Chair (Private Sector)	1	$7,500	$300
Private Sector Directors	2	$3,500	$300
Public Sector Directors	1	None	None
DCC President and CEO	1	None	None
Vacancies	2	-	-

Board of Directors – Attendance – Table 5

MEETINGS	NO. HELD	PUBLIC SECTOR MEMBERS	PRIVATE SECTOR MEMBERS	COMBINED
Full Board	3	100%	100%	100%
Audit Committee	3	100%	100%	100%

DCC BOARD OF DIRECTORS

CHAIR

MR. JOHN D. MCLURE

Mr. McLure is President of JDM Consulting Inc. and a senior associate at Hill and Knowlton Canada Limited. In 1975, he left the Canadian Forces to pursue a career with the federal public service. Mr. McLure served with Treasury Board of Canada Secretariat, the Department of Fisheries and Oceans, the Department of Regional Industrial Expansion, the Department of National Defence and the Department of Western Economic Diversification. He retired from the public service as a Deputy Minister in 1997, when he joined Hill and Knowlton. Mr. McLure earned a Bachelor of Science degree from the University of Manitoba in 1963, and studied at the Royal Military College of Science in England.

BOARD MEMBERS

MS. KAREN ELLIS

Ms. Ellis is the Assistant Deputy Minister (Infrastructure and Environment) at the Department of National Defence. She has broad experience in leading diverse workforces undergoing significant change and in managing complex issues, in both policy and operational environments across the federal government. Previously, she held director general positions at Canadian Heritage and Public Works and Government Services Canada. Ms. Ellis earned a Bachelor of Education degree from the University of Ottawa and a Master of Arts (History) degree from Carleton University.

MR. JEAN-CLAUDE GARNEAU

As President of Excotech, Mr. Garneau has used his expertise as a consultant for Hydro-Quebec and the Société d'énergie de la Baie James, among other clients. During his 35 years with Janin Construction, he was involved in numerous projects, where he acquired a solid reputation for his understanding of all aspects of the construction industry, particularly the complexity of large-scale projects. Mr. Garneau holds a Bachelor of Science (Civil Engineering) degree from McGill University.

MR. ROSS NICHOLLS, P.ENG.

Mr. Nicholls joined DCC in 1978 and held a variety of engineering and management positions at the Corporation's site and regional offices in Atlantic Canada, Quebec and Ontario before being appointed to his current position of President and Chief Executive Officer in 1996. He holds a Bachelor of Science degree from Mount Allison University, as well as a Bachelor of Engineering (Civil) degree from the Technical University of Nova Scotia. He is a member of Professional Engineers Ontario, l'Ordre des ingénieurs du Québec and the Canadian Military Engineers Association, and sits on the Board of Trustees of the Canadian Mechanical Contracting Education Foundation and the Board of Directors of the Canadian Construction Innovation Council.

MS. NANCY PENNER

Ms. Penner has practised law for more than 20 years in the securities, oil and gas, and general corporate areas as partner and counsel in an Alberta law firm. She has served on the boards of directors of numerous public and private corporations and not-for-profit organizations and on the executive bodies of various industry organizations. Ms. Penner holds a Bachelor of Arts degree from the University of Manitoba and holds a Bachelor of Laws degree from the University of Calgary.

MANAGEMENT APPLICATION OF RISK MANAGEMENT

Under the direction of the Board of Directors, senior management has established a comprehensive risk management framework within the Corporation's general management framework. The framework identifies the risks associated with DCC's environment and its main business activities, evaluates the probability and potential impact of risk occurrence, and defines mitigation measures to avoid or minimize the risk.

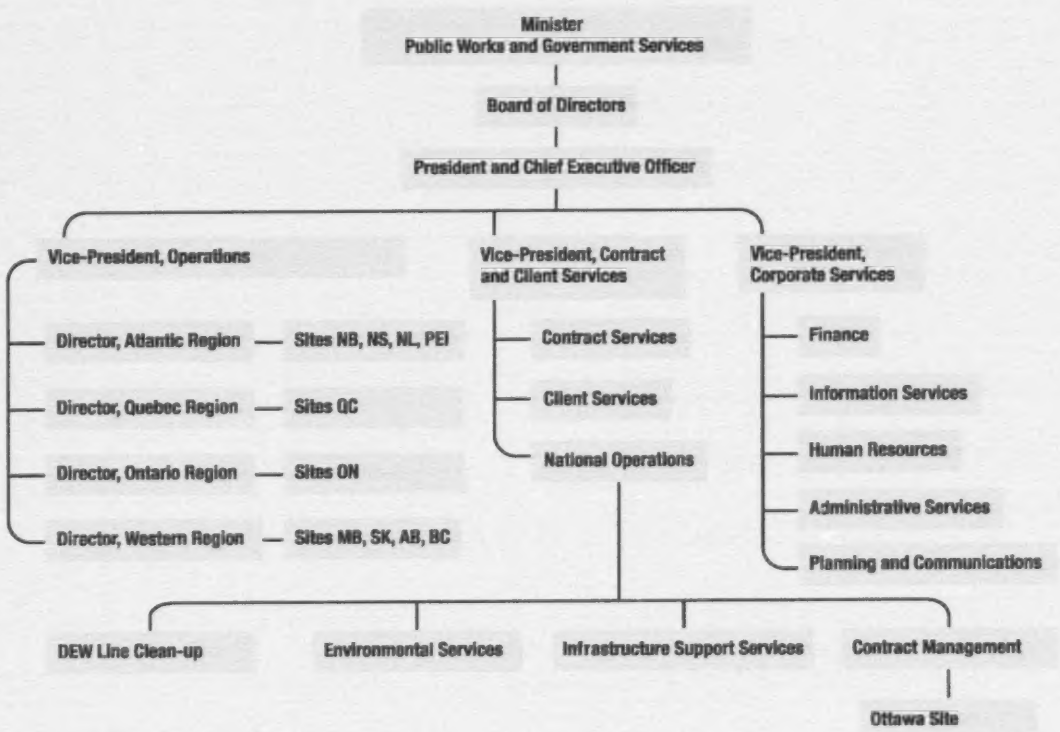
The framework is integrated into the Corporation's strategic planning process in a way that high-risk areas receive special consideration in the planning exercise, particularly with respect to establishing priorities and allocating resources.

A Risk Management Committee consisting of the President and the three Vice Presidents leads the risk management exercise and establishes the overall risk mitigation strategy. The required actions associated with strategic risks are pushed down to the management group and onward through the organizational structure for implementation, along with the promotion of risk management awareness and guidance to all staff. In parallel, operational risks are identified at the working level and referred to more senior levels in the organization for guidance and management assistance as may be required. Sound risk management practices are embedded in DCC's corporate culture; staff members are expected to identify risks and deal expediently with issues and problems. DCC does a good job balancing the risks to the Corporation with the need to provide a high level of timely operational support to DND and the CF. DCC's risk management approach is characterized by having sound business process documentation, as well as effective and efficient levels of delegation of authority, supported by speedy communication up the chain of command.

Although DCC is engaged in several potentially high-risk areas of business, such as procurement and contract management, the integrity of the Corporation's staff and businesses processes has not been questioned. One might credit this to sound internal control systems, which are essential management tools. However, the true basis of DCC's confidence in managing this risk lies in the sound values and ethics of the Corporation's employees. Leadership by the Board of Directors and senior management, and dedication and commitment from staff, has given DCC an exemplary reputation in both government and in industry. Senior managers personally expect employees to have real accountability for their actions, and employees expect the same of senior managers. There is zero tolerance in DCC for any unethical behavior.

ORGANIZATION

DCC's executive consists of the President and Chief Executive Officer; the Vice-President, Operations, and Chief Engineer; the Vice-President, Corporate Services, who is also the Chief Financial Officer and Secretary-Treasurer; and the Vice-President, Contract and Client Services. DCC's head office, which includes the Contract Services Division, Corporate Services Division and National Operations Group, is located in Ottawa. The Operations Division includes site offices at all active CF establishments in Canada, which are managed by four regional offices (Atlantic, Quebec, Ontario and Western). In addition, DCC maintains seasonal remote offices in the Arctic, as required for the DEW Line Clean-up Project. As part of its support to CF operations deployed abroad, the Corporation establishes site offices on location, as required.



EXECUTIVE TEAM

MR. ROSS NICHOLLS, P. ENG.

PRESIDENT AND CHIEF EXECUTIVE OFFICER

Mr. Nicholls joined DCC in 1978 and held a variety of engineering and management positions at the Corporation's site and regional offices in Atlantic Canada, Quebec and Ontario before being appointed to his current position of President and Chief Executive Officer in 1996. He holds a Bachelor of Science degree from Mount Allison University, as well as a Bachelor of Engineering (Civil) degree from the Technical University of Nova Scotia. He is a member of Professional Engineers Ontario, l'Ordre des ingénieurs du Québec and the Canadian Military Engineers Association, and sits on the Board of Trustees of the Canadian Mechanical Contracting Education Foundation and the Board of Directors of the Canadian Construction Innovation Council.

MR. RONALD DE VRIES, P. ENG.

VICE-PRESIDENT, CONTRACT AND CLIENT SERVICES

Since joining DCC in 1983, Mr. de Vries has led a variety of corporate and industry related initiatives. He has been involved in all aspects of DCC's business, from contracting and contract management to project management and environmental services. Mr. de Vries earned a Bachelor of Science (Civil Engineering) and completed the Executive Program at Queen's University. He is currently active on several industry and government procurement committees.

MR. RUSS PERRIE, P. ENG.

VICE-PRESIDENT, OPERATIONS AND CHIEF ENGINEER

Mr. Perrie has been with DCC since 1978 and has been involved in a variety of government initiatives with DCC and the Department of National Defence. In various capacities, he has managed a wide range of consultant, facilities management and defence construction programs, projects and contracts. Mr. Perrie earned a Bachelor of Science in Engineering (Civil) from the University of Manitoba and has completed the Executive Program at Queen's University. He is active in the Canadian Military Engineers Association as the Vice-President of Member Services.

MR. ANGELO OTTONI, CA

VICE-PRESIDENT, CORPORATE SERVICES, CHIEF FINANCIAL OFFICER AND SECRETARY TREASURER

Mr. Ottoni joined DCC in 2001 and manages five departments, which are responsible for human resources, information services, finance, planning and communications, and administration. Before joining DCC, he worked for nine years in the technology industry and for 15 years with a major international accounting firm. Mr. Ottoni earned a Bachelor of Commerce degree from Concordia University as well as a Public Accountancy diploma from McGill University. Mr. Ottoni received his Chartered Accountant Designation in 1978.

SENIOR MANAGEMENT TEAM

MR. MICHAEL DARROW, P. ENG.
DIRECTOR, ATLANTIC REGION

Since joining DCC in 1971, Mr. Darrow has been responsible for major infrastructure projects throughout the Maritime provinces. He has been the Regional Director, Atlantic Region, since 1999 and he manages the Atlantic Region program, which averages $75 million in annual work volume. Mr. Darrow has earned a certificate in Applied Science from Acadia University, a Bachelor of Engineering (Civil) degree from the Technical University of Nova Scotia and a certificate in Environmental Management from Dalhousie University, and has completed the Executive Program at Queen's University.

MR. STEPHEN G. KARPYSHIN, P. ENG.
DIRECTOR, WESTERN REGION

Mr. Karpyshin joined DCC in 1988 and was appointed Regional Director, Western Region, in 1998. Over the past 15 years, he has worked on such projects as the North American Air Defence Modernization project and the Infrastructure Reduction Program in Edmonton. Mr. Karpyshin graduated from the University of Manitoba with degrees in Physics and Civil Engineering and has completed the Executive Program at Queen's University. He is a board member of the Alberta Construction Tender System and a member of the Alberta Federal Council.

MR. MARC LANTEIGNE, P. ENG.
DIRECTOR, QUEBEC REGION

Since joining DCC in 1988, Mr. Lanteigne has worked in every region on projects such as the construction of short-range radar sites in Labrador and he was the Area Engineer in the Western Region, prior to assuming responsibility for the Quebec Region in 2001. Mr. Lanteigne earned a Bachelor of Science in Engineering (Civil) degree from the University of New Brunswick and has also completed the Executive Program at Queen's University. He is a member of l'Ordre des Ingénieurs du Québec and the Association of Professional Engineers and Geoscientists of New Brunswick.

MR. DAVID MCCUAIG, PMP, MPM
DIRECTOR, NATIONAL OPERATIONS

Mr. McCuaig has been with DCC since 2000. His team of engineering, environmental and project management professionals oversees more than $50 million in construction and environmental projects annually. These projects include support to deployed operations and the DEW Line Clean-Up project. Mr. McCuaig has 20 years of experience in project management and construction with industry and government. He has taught project management and construction at the graduate college level. He has earned a Master of Project Management degree from the Université du Québec, holds a Project Management Professional designation and has completed the Executive Program at Queen's University.

MR. RANDY MCGEE, P.ENG., GSC
DIRECTOR, ONTARIO REGION

Originally with DCC from 1984 to 1998, Mr. McGee rejoined DCC in 2001 as the Western Area Engineer, after three years in the private sector running his own project management firm. He has extensive experience in managing construction and consultant projects as well as design-build and construction management projects. Mr. McGee earned a Bachelor of Science in Engineering (Civil) degree from the University of Manitoba, has completed the Executive Program at Queen's University and is a Canadian Construction Association Gold Seal Certified Project Manager.

MR. GEORGE PLANK
DIRECTOR, CONTRACT SERVICES

Mr. Plank's public service career began in 1979, in the procurement field with what was then the Department of Supply and Services. He subsequently held director positions at Fisheries and Oceans and at the Canadian Food Inspection Agency, where he managed a varied real property portfolio. Mr. Plank joined DCC in 2004 to manage the Contract Services Division and lead the national contracting service line. Mr. Plank holds a Bachelor of Mechanical Engineering degree from McGill University and a Master of Business Administration degree from the University of Ottawa.

HUMAN RESOURCES PERFORMANCE INDICATORS

DCC acknowledges that its chief asset is people and that corporate success is built on employee ability and commitment. One of DCC's strengths is its dedicated workforce of professionals. The team consists of a mix of engineers, engineering technicians and technologists, environmental scientists and experienced tradespeople. Other specialists in finance, human resources, information technology, communications and administration support these employees. At year end, DCC had 483 employees. This compares to 405 employees at the end of 2004–05, 348 employees at year end in 2003–04, 280 in 2002–03, and 267 in 2001–02. This represents a 19% increase in the employee base from last year, and an 81% growth in employees over the past five years.

DCC recognized eight employees in 2005–06 with 10 years of service, three employees with 20 years of service, four employees with 25 years of service, and four employees with 30 years of service.

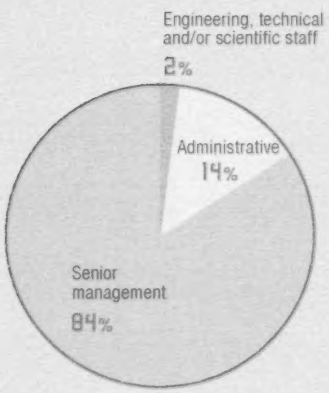
Employees acknowledge that working for DCC is interesting, challenging and stimulating, and that there is a sense of mutual respect. Recruitment practices focus on engaging professionals who strive to maintain the Corporation's continued success and who take pride in achieving their personal goals.

RECRUITMENT DCC's internal recruitment practices helped 67 employees move further along their career paths through promotions, lateral transfers and relocations during the past year. This figure includes one foreign assignment in Afghanistan; and 11 northern assignments for DEW Line projects. When employees take advantage of the opportunity to work overseas or in the North, the Corporation and the employee all reap the benefits. The client also benefits from the transfer of DCC employee skills both to and from one of its operational theatres or remote sites where employees have the chance to hone their skills and test themselves. Throughout all of this interchange, the Corporation succeeds in expanding its collective base of knowledge and experience.

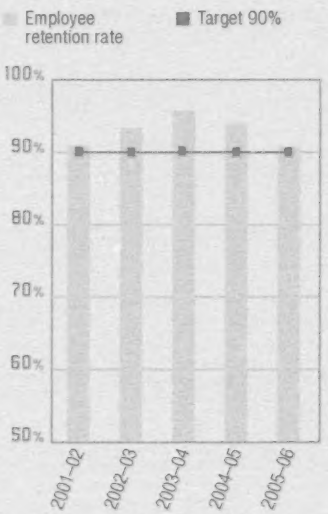
RETENTION RATE Although there is a certain turnover of staff due to the seasonal and geographically cyclical nature of DCC's work, voluntary departures due to resignation or retirement are within corporate expectations. The employee retention rate has stayed above 90% for several years. DCC views this rate as a measure of employee satisfaction with DCC's working environment. As Figure 9 indicates, the retention rate decreased to 90.64% in 2005–06 from 93.89% in 2004–05. Although still within the target range, DCC is monitoring this decrease and is evaluating the reasons why people choose to leave the Corporation.

Last year, in order to ensure a fair and equitable work environment, DCC undertook a major review of its job classification system, including levels of remuneration. At the end of the fiscal year, this program was launched. Additionally, to maintain an attractive work environment, the Corporation promotes employee opportunities for training and lateral transfers within the Corporation.

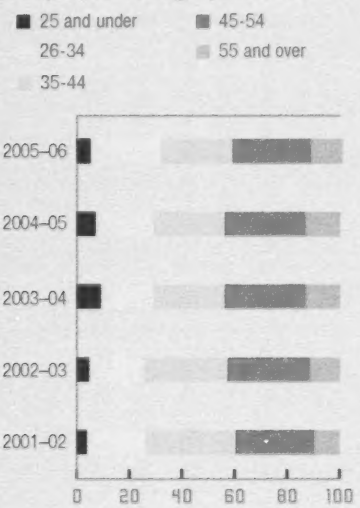
DCC Workforce *Figure 8*



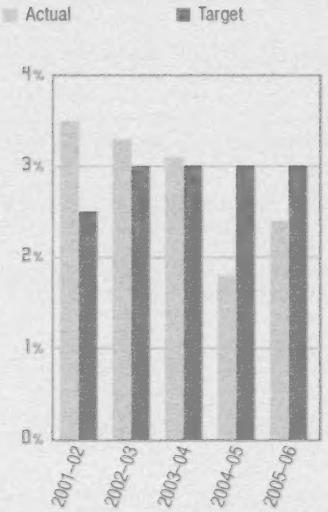
Employee Retention Rate *Figure 9*



Employee Demographics *Figure 10*



Professional Development to Salary Cost Ratio *Figure 11*



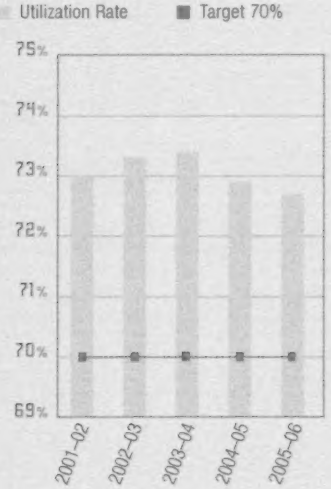
DCC acknowledges that its ability to serve its client is heavily reliant on the skills of its employees, hence ongoing training and development is given a high priority. Each year, the Corporation sets a spending target for training and development as a proportion of total salary costs. This indicator includes only the direct education costs, and not the associated disbursements or employee time. Typically, there has been a trend for DCC to surpass its spending target of 3% of employee salaries for this area. However, over the last two years, a portion of the allocation was redirected from direct training to the design and development of a comprehensive training and development framework. As a result, only 2.4% of the salary cost was spent on training in 2005–06 and 1.8% in 2004–05. It is anticipated that training and development expenditures will return to the target levels of 3% in the next fiscal year.

UTILIZATION RATE The utilization rate is an important performance indicator as well as a key financial management tool. It indicates the hours spent on contract-related functions as opposed to non-billable overhead functions. In 2005–06, the utilization rate was 72.7%. The rate has remained fairly consistent at this level for the past five years, even as the employee population increased by 81%.

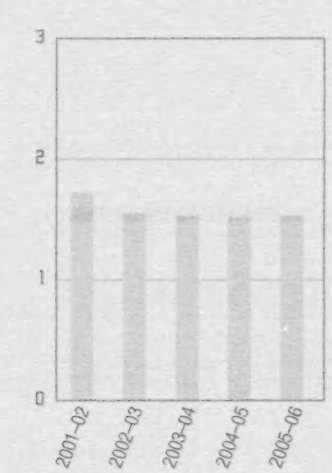
DIRECT PERSONNEL EXPENSE MULTIPLIER The Direct Personnel Expense Multiplier (DPEM) is the factor by which DCC multiplies direct project personnel expenses to recover overhead costs. Direct project personnel expenses include salary costs, payroll benefits and compensated absences, such as vacation, sick days, holidays and professional development time. This multiplier is used as a guideline to establish billing rates for DCC services. Fluctuations in the actual multiplier from period to period are due to the need to ensure adequate operating contingency funds to account for fluctuations in the program funding and implementation. This approach is in accordance with DCC's financial management policy.

The DPEM in 2005–06 was 1.53 compared to 1.52 in 2004–05. The DPEM target range is 1.50 to 1.60, and the actual DPEM over the past five years has consistently remained within this targeted range.

Utilization rate *Figure 12*
Percentage of employee hours spent on client contract work



Direct Personnel Expense Multiplier *Figure 13*



Members of the Kabul Embassy Reopening Project Team – including members of DCC's deployed operations staff – faced not only material shortages and a local workforce with varying skill levels, but, like most visitors, they also faced occasional mortar attacks and bomb threats.

Despite these conditions, the team prevailed, converting three houses into a permanent embassy in a secure compound. Thanks,to the work of employees like DCC's Stewart Dafoe (back row, right), Tommy Yeung (front row, left) and Harry Rohde (who has since retired), Canada now has a functional and secure embassy in Afghanistan. Also part of the DCC team were employees Keith Dyer, Kris Seiler and Perry Wallace. DCC's efforts were recognized at the 2006 Public Service Awards of Excellence on June 16 in Ottawa, as part of a winning contingent that includes Foreign Affairs Canada, the Department of National Defence, and the Canadian International Development Agency. The team won in the category of *Exemplary Contribution under Extraordinary Circumstances*.

The Government of Canada Workplace Charitable Campaign (GCWCC) helps fund crucial community and health programs, and supports life-saving medical research. In fall 2005, DCC head office employees succeeded in raising a total of $16,223.49. The team (from left to right: Gerald James, Jessie Richards, Jennifer Culleton, Monica Aggarwal and Don Beattie) was presented with certificates of appreciation by Ross Nicholls, President and CEO (right).

Putting the client first is a core belief at DCC. For 35 years, Jacques Desarzens' (at right) long track record of competence and professionalism has reflected that belief. At DCC's National Awards ceremony, his record earned him the Customer Satisfaction Award. Desarzens, Site Manager at Valcartier (retired 2006), has built up an enviable record of client service delivery. Whether dealing with the client at National Defence Headquarters or at the site level, or providing meaningful direction to staff, Desarzens worked tirelessly to understand the client's needs.

AWARDS AND RECOGNITION

DCC proudly recognizes the following employees for their exceptional contribution to achieving corporate goals.

NATIONAL AWARDS 2005-06

President's Award for outstanding service to the Corporation performed consistently over time in a manner above and beyond normal work requirements.

Mr. John Graham, Area Manager
Kingston, Ontario

Mr. Graham's high standards are known throughout the Corporation. Whether overseeing projects as large as DND's $44 million Fire Fighter Trainer Facilities Project, or providing strong and assured support to clients including CFB Kingston's Base Construction Engineering Officer (BCEO) and the Canadian Forces Housing Agency, his energy and competence reflect DCC's commitment to outstanding service.

Service Development Award for employee performance in the development or promotion of services that respond appropriately to client requirements and for contributing to the service delivery team.

Mr. Doug Polak,
Environmental Program Manager
Halifax, Nova Scotia
And
Ms. Alison Rossiter,
Environmental Project Coordinator
Halifax, Nova Scotia
And
Ms. Dawn Ryan,
Environmental Project Coordinator
Halifax, Nova Scotia

This Atlantic Regional Office team has used its technical expertise to deliver Maritime Forces Atlantic (MARLANT) Formation Safety and Environment (FSE) Contaminated Sites projects. Their strong skills and effective results reflect positively on DCC's service development program.

Customer Satisfaction Award for exemplary contribution by an employee consistently over a period of time to customer service

Mr. Jacques Desarzens,
Site Manager (retired 2006)
Valcartier, Quebec

Mr. Desarzens' 35 years at DCC are distinguished by his enviable record of client service delivery. Whether dealing with National Defence Headquarters or personnel at the Base or Wing level, Mr. Desarzens has worked endlessly to understand DND's needs, and provides solutions that help all parties.

Service Innovation Award recognizing employee contributions towards achieving the Corporation's goal of providing innovative, value added solutions to either an internal or external client.

Ms. Loree Hurst,
Administrative Officer
Edmonton, Alberta

Innovation takes just one person with one great idea. Ms Hurst's savvy computer skills reflect DCC's commitment to innovation. Her computer database development – which now helps staff track everything from Environmental Assessments, ID cards, accreditations and addresses – is now being adapted at other DCC offices.

Robert Graham Memorial Award Recognizing a special contribution to the improvement of work place safety or environmental protection.

Mr. Bryon McConnell,
Environmental Coordinator
Kingston, Ontario

A cleaner environment means a healthier environment, and DCC is proud of Mr. McConnell's efforts to build the site office's scope of environmental services to DND. When it's projects like the recently proposed Wind Turbine Measure at CFB Kingston, or producing an asbestos management checklist, Mr. McConnell's expertise has always proved necessary when navigating complex environmental issues.

UPDATE ON STRATEGIC INITIATIVES

DCC's planning and reporting process is structured into four strategic themes, fostering continuity in all plans and reports and making it simpler to track corporate achievement. These strategic themes are corporate governance and leadership, service delivery, managing stakeholder relationships, and corporate services and support. All initiatives in the strategic Corporate Plan and business plans can be categorized within one of these areas, and success in each of these themes supports the Corporation's overall strategy.

CORPORATE GOVERNANCE AND LEADERSHIP INITIATIVES Operating a business, especially one that is accountable to all Canadians, demands the utmost in accountability, fairness, trust and transparency of operations. Given DCC's status as a Crown corporation, ensuring that ethical and appropriate business practices exist at all levels in the workplace is critical.

The nature of DCC's business sees the Corporation regularly entering into multi-million-dollar contracts with many contractors and consultants. DCC regularly reviews business practices and management procedures to ensure that regulations are strictly followed.

The main objective of the governance and leadership theme remains clear: *to ensure the success of DCC's mission through the strong and ethical leadership of the Corporation.* Success in governance is a concept with many layers. It touches on day- to- day policy and procedural requirements that affect the workplace and the everyday lives of employees. It also affects the way DCC, in its role as a Crown corporation, supports the wide-ranging policy objectives of the Government of Canada, including those fulfilled through the programs and operations of DND and the CF.

Over the last half century, these tenets have permeated the employee culture at DCC. As the Corporation has expanded gradually over the years, new employees were introduced to the integrity of DCC work practices on a more measured basis, in keeping with business volume.

In the past several years, the workforce has almost doubled, and new employees need to be brought up to speed quickly on the DCC way of doing business. Unlike the DCC of a decade ago, a significant portion of new staff has not had long-term exposure to the culture, history and practices of the Corporation to fully appreciate the philosophical basis of the operation. DCC is aware that a strong and knowledgeable team who knows its scope of authority is a major factor in its ability to provide leadership for the Corporation. Consequently, staff training and development in both the technical aspects of the job and in corporate governance is a priority at all levels.

Part of DCC's planned five-year strategic outcomes involves the establishment of a training and career development framework that supports both corporate and individual career development needs. This training and development initiative, which first commenced in 2004–05, is scheduled to unfold over several years. The initiative will foster the learning culture within DCC, and assist staff by offering guidance and training courses that support corporate objectives, learning needs, job performance and career development. In 2005–06, the following milestones were reached: the hiring of training and development coordinators, the planning of a program and schedule, and the conception and development of DCC course content.

SERVICE DELIVERY INITIATIVES Achieving excellence in service delivery remains critical to DCC, as one of the Corporation's objectives is to provide innovative solutions and to deliver value-added, high-quality, timely and efficient services in support of defence projects. The Corporation continually strives to improve its service delivery on each successive project and to enhance the knowledge of client requirements it has gained over the past half century.

DCC has witnessed much growth over the last few years, with every year experiencing a significant increase in revenue. Validating the way the Corporation delivers services is key to ensuring success, especially during periods of growth. DCC wants to manage its growth seamlessly, with no negative impacts on the client. To that end, DCC carried on with a multi-year initiative, which began in 2004–05, which reviews the Corporation's service delivery methods, and established a matrix management style of service delivery, modelled along service lines.

This revised model, which updates and consolidates the way DCC delivers services, reflects the client's evolving service requirements and DCC's expertise and capabilities. Throughout 2005–06, work progressed steadily on the strategy of implementing this improved model. Service line leaders were appointed and their expertise was key in making the transition of the DCC management structure to a matrix-style service delivery

and management system. This task included developing business plans, based on service lines, as well as rolling out some internal communications activities with the employees in each service line.

STAKEHOLDER RELATIONSHIPS INITIATIVES In the early days of DCC, the Corporation operated simply and under these basic rules: deliver the best quality work possible and treat everyone the Corporation deals with fairly and reasonably. Although the business has grown into a much more complex operation than it was in the 1950's, these principles remain the foundation of business practices at DCC.

Since that time, DCC has articulated a more formal policy based on these ideas. An important corporate objective is *to be an organization that fosters industry, organizational and contractual relationships in an ethical, fair and professional manner.* DCC believes its business can succeed only when the individuals and groups with which it deals benefit by being associated with DCC. This objective covers the broader strategic aspects of corporate social performance involving those groups affected by DCC's corporate objectives, and not only specifically the client–DCC service delivery relationship.

Maintaining positive and transparent relationships with its stakeholders remains a strategic priority. In 2005–06, the Corporation continued to focus on encouraging its employees to become involved with their industries and to keep up to date on industry trends.

In the past, DCC has reported that approximately 10% of all DCC employees were involved in some way with their relevant industry association. In 2005–06, DCC employees continued to be involved in organizations such as: Construction Specifications Canada (CSC), the Canadian Public Procurement Council (CPPC), the Royal Architectural Institute of Canada (RAIC), the Association of Consulting Engineers of Canada (ACEC) and the Canadian Design-Build Institute (CDBI).

Employees are active in many ways. For example, growing numbers of employees across the country have attained certification with the Project Management Institute (PMI) and the Canadian Green Building Council (CaGBC). In addition, throughout the Corporation, employees sit on committees and working groups within various construction associations, and government organization. Some examples of these are Environment Canada's Federal Prairie Water Committee, Public Works and Government Services Canada's Sustainable Buildings Task Group and Treasury Board Secretariat's Internet Advisory Committee.

After reviewing this data on the nature of employee involvement in different associations, consideration will be made in the coming year as to whether or not business managers will want to target more specifically the type of involvement by certain employees in specific organizations. In addition, the Corporation remains open to any opportunities for DCC to enhance a sense of community and partnership with DND and relevant industry associations.

CORPORATE SERVICES AND SUPPORT INITIATIVES DCC has well-established systems for managing its day-to-day operations, human resources, and financial and information systems. DCC's internal administrative ability touches all aspects of the business and is the key to success in maintaining high-quality service to DND. With the objective to ensure that the human resources, financial and administrative policies, and business systems are in place to support fully DCC's capability to meet corporate and government objectives, DCC strives to keep up to date with modern business methods, practices and systems, and the use of information technology, all of which affect the quality of its service delivery.

The Corporate Services Division within DCC is comprised of five departments: finance, information services (IS), human resources administrative services, and planning and communications. Like other business units, it strives to improve continuously so that, in the end, the client can benefit from its cost-efficient and streamlined operations.

In 2005–06 there were two significant advancements under the theme of corporate services and support. Work on the Information Services (IS) technology roadmap continued into its second phase. Contractors, consultants, the client and employees all want to conduct business with DCC easily and efficiently. Most often, this means using technology to facilitate business processes. To that end, DCC's IS department implemented several enhancements and upgrades to its system, and examined other new options such as implementing a human resources information system (HRIS) for streamlining the collection and dissemination of data.

A second major accomplishment for the corporate services division, not identified in the corporate plan, took place during the second half of 2005–06. DCC recognized a need to review its job classification system and compensation systems and practises. This was due primarily to rapid growth in the number of DCC employees,

particularly in the specialty service lines, who were bringing unique qualifications to the Corporation. The Corporation views the recruitment and retention of well-qualified employees as a strategic priority, and hiring and maintaining a strong employee base and equity among the diverse employee groups were the goals of this initiative. The changes that resulted from this review were launched at fiscal year end, and took effect for employees commencing April 1, 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

FINANCIAL MANAGEMENT POLICY

The Corporation's financial management policy and financial statements assume that the Corporation is a going concern and its stated mandate will continue for the foreseeable future.

The Corporation's financial management policy is to generate sufficient cash to meet its anticipated operating and capital requirements and settle its financial obligations as they become due. In determining the amount of cash reserves carried for operating needs, the Corporation considers the risks inherent in its operations, particularly the risks associated with potential and unanticipated changes to the amount or timing of construction project expenditures on the part of its client, the Department of National Defence. To fulfill its mandate and remain ready and able to serve its client at all times, the Corporation must constantly react to changing business conditions and be able to financially support and sustain its operations when sudden or unanticipated business changes occur. As a result, the Corporation allows for reasonable levels of operating contingencies in determining the amount of cash reserves it carries. Management constantly monitors and reviews cash levels to determine their appropriateness. Any surpluses or shortfalls that may occur occasionally are taken into consideration in formulating future business plans. In particular, cash surpluses judged to be in excess of operating requirements are returned to the client through the setting of billing rates for future services.

Overall, services revenue increased in the year ended March 31, 2006, by $7,840,000 or approximately 23% over the previous fiscal year. Since billing rates remained constant from year to year, the increase is attributable primarily to the increase in business volume, which accounted for approximately 20% of the increase. The remainder of the increase is attributable to a combination of factors,

Fiscal 2005–2006 Compared with Fiscal 2004–2005 – Table 6 *($ 000's)*

Services Revenue	RESULTS: 2005-06		RESULTS: 2004-05[1]		VARIANCE	
Contract management	$ 24,994		$ 21,550		$ 3,444	16%
Contracting	4,071		3,456		615	18%
Construction and contracting services	29,065	68%	25,006	72%	4,059	16%
Environmental services	5,509		4,175		1,334	32%
Project and program management support	5,811		3,472		2,339	67%
Infrastructure support services	2,096		1,988		108	5%
Related services	13,416	32%	9,635	28%	3,781	39%
	$ 42,481		**$ 34,641**		**$ 7,840**	**23%**

[1] *In fiscal 2005–06, the Corporation adopted a service line reporting format for revenues. The comparative numbers for 2004–05 have been reclassified to conform to this new reporting format.*

including a change in the mix of billable resources used and the effect of certain fixed fee arrangements.

Although the Corporation experienced a 23% overall increase in services revenue, revenue from related services grew at a faster rate of 39%. This rise resulted in a decrease in the percentage of total revenue generated from construction and contracting services to 68% in the year ended March 31, 2006, compared to 72% in the previous fiscal year, and an increase in the percentage generated from related services to 32%, from 28% in the previous fiscal year. Some of the revenue fluctuations simply reflect cyclical variations in demand related to the client's program implementation. Notably, revenue from project and program management services increased by 67% and revenue from environmental services rose by 32%. Both of these rises outpaced the overall services revenue increase of 23%. On the other hand, infrastructure support services revenue increased by only 5%. In this category, although revenue from energy performance services increased by 33%, there was a decrease in the revenue from both facilities management services (-9%) and facilities decommissioning services (-24%).

Contracting services revenue increased by 18%. This increase is primarily related to the client's increased demand for value-added services related to contracting. Although the volume of the client's contract expenditures decreased slightly during the year, contract management revenue nevertheless increased by 16%. This increase is due to variation in the nature and size of individual construction projects from year to year and in the level of effort required to manage them, particularly in relation to consultant contracts, where DCC has been taking on a greater management role.

INTEREST REVENUE Interest revenue, which is generated from the Corporation's average current account bank balance, increased in the year ended March 31, 2006, by $71,000 or approximately 76% over the previous fiscal year. This significant increase is due to a combination of higher average monthly cash balances during the fiscal year, as well as increases in the average interest rate from 2.2% in the previous year to 2.8% in the year ended March 31, 2006.

SALARIES AND EMPLOYEE BENEFITS Salaries increased in the year ended March 31, 2006, by $4,977,000 or approximately 22% over the previous fiscal year. This increase is attributable

Interest revenue – Table 7 *($ 000's)*

RESULTS: 2005-06	RESULTS: 2004-05	VARIANCE	
$ 164	$ 93	$ 71	76%

Salaries and Employee Benefits – Table 8 *($ 000's)*

	RESULTS: 2005-06	RESULTS: 2004-05	VARIANCE	
Salaries	$ 27,845	$ 22,868	$ 4,977	22%
Benefits	7,465	5,803	1,662	29%
	$ 35,310	**28,671**	**$ 6,639**	**23%**
Ratio of employee benefits to salaries	26.8%	25.4%	1.4%	-

to a combination of higher levels of staff, which accounted for approximately 20% of the increase; inflationary salary increases and performance-based incentives, which accounted for about 4% of the increase; and the difference in staff mix, which reduced the overall increase by approximately 2%.

Employee benefits increased in the year ended March 31, 2006, by $1,662,000 or approximately 29%. This increase is partially related to the increase in salaries discussed above (22%) and partially to an increase in pension contributions resulting from a combination of higher contributions by employees, the buy-back of pensionable service by certain employees and an increase in health care benefits. These factors also increased the ratio of employee benefits to salaries by 1.4% to 26.8% for the year ended March 31, 2006, compared to 25.4% for the previous year.

OPERATING AND ADMINISTRATIVE EXPENSES Operating and administrative expenses for the year ended March 31, 2006, increased by $840,000 or approximately 20% over the previous fiscal year. The increase in rent expense of approximately 3% is attributable to additional office space procured at regional and head office locations to accommodate growth in personnel. Employee training and development costs increased by approximately 67%. In 2004–05, management used part of the training and development budget to produce a new training and development framework and training tools, as part of a corporate initiative. For this reason, spending on training and development was reduced below previous years spending levels.

Telephone and communications costs increased by approximately 13%, due to the increase in business activity and the introduction of faster, but more expensive, data communication lines in certain company locations. Business travel costs increased by 56%, due partially to an increase in business activity, inflationary

Operating and Administrative Expenses – Table 9 *($ 000's)*

	RESULTS: 2005-06	RESULTS: 2004-05	VARIANCE	
Rent	$ 1,028	$ 997	$ 31	3%
Employee training and development	668	401	267	67%
Telephone and communications	577	510	67	13%
Travel	455	291	164	56%
Professional services	580	475	105	22%
Office supplies and equipment	409	327	82	25%
Staff relocation	386	308	78	25%
Recruiting costs	161	83	78	94%
Software maintenance	151	172	(21)	-12%
Other overhead expenses	693	704	(11)	-2%
	$ 5,108	**$ 4,268**	$840	20%

Net Income – Table 10 *($ 000's)*

	RESULTS: 2005-06	RESULTS: 2004-05	VARIANCE	
Net income	$ 1,458	$ 987	$ 471	48%

Capital Expenditures – Table 11 *($ 000's)*

	RESULTS: 2005-06	RESULTS: 2004-05	VARIANCE	
Software	$ 46	$ 129	$ (83)	-64%
Computer equipment	368	572	(204)	-36%
Furniture and equipment	209	147	62	42%
Leasehold improvements	125	20	105	525%
	$ 748	**$ 868**	$ (120)	-14%

increases in travel-related costs and increased travel related to the Corporation's introduction of its new matrix-style service delivery framework.

Professional services costs increased by approximately 22%, due primarily to the increase in internal audit activity compared to the previous fiscal year, when little audit activity took place due to a transition to new internal auditors. In addition, during fiscal 2005–06, the company hired a consultant to assist the Corporation in revamping its job classification and compensation practices. Costs for office supplies and equipment increased by 25%, due to a combination of inflation and growth in business activity.

Staff relocation costs increased by approximately 25% over the previous fiscal year, due to an increase in the number of relocations that took place to respond to client needs. Recruiting costs increased by 94%, due to the increase in new hires, including one at the executive level.

Software maintenance costs decreased by 12%, due primarily to a reduction in costs relating to the IBM mainframe computer and software following an upgrade in the previous year. Other overhead expenses decreased by about 2% over the previous year, due mainly to reductions in computer hardware and software costs (-43%) and business development costs (-32%). Costs for other items in this category increased, due to a combination of inflation and higher levels of business activity.

NET INCOME Net income increased to $1,458,000 in the year ended March 31, 2006, compared to $987,000 in the previous year. Increased business volumes and related operating efficiencies both contributed to this increase. In accordance with the Corporation's financial management policy, surpluses judged to be in excess of operating requirements are returned to the client through the setting of reduced billing rates for future services. Given the net income realized in 2005–06, the Corporation decided to keep billing rates for 2006–07 constant with those in 2005–06.

CAPITAL EXPENDITURES The Corporation's capital expenditures for the fiscal year ended March 31, 2006, totalled $748,000, representing a decrease of 14% from the previous year. The significant decrease in software is due to decreased spending on software upgrades and on software development relating to the Corporation's main business application, in comparison to the previous year. Costs for computer equipment also decreased by 36%, due to the significant amount the Corporation spent in the previous year to replace its mainframe computer system. Furniture and equipment expenditures increased by 42% in response to staff growth. The significant increase in leasehold improvement costs is due to work done on new office space in Ottawa to accommodate staff increases.

LIQUIDITY AND CAPITAL RESOURCES

The cash balance at March 31, 2006, increased by about 42% over the previous year. During fiscal 2005–06, the Corporation generated $2,891,000 ($1,713,000 in the previous year) in cash from operating activities and spent $748,000 ($868,000 in the previous year) on capital expenditures, producing an overall increase of $2,143,000 ($845,000 in the previous year). In accordance with its financial management policy, the Corporation maintains sufficient cash to meet its anticipated operating and capital requirements and to settle its financial obligations as they become due. Any cash surpluses or shortfalls are taken into consideration in formulating future business operating plans. In particular, surpluses judged to exceed operating requirements are returned to the client through the setting of billing rates for future services. The Corporation has no segregated cash reserves. Cash that exceeds short-term operational requirements is invested in accordance with the investment policy approved by the Board of Directors.

The increase at March 31, 2006, in trade receivables of $1,416,000 or 24% is consistent with the overall increase in services revenue discussed earlier. The average number of days that accounts were outstanding remained constant from year to year at 46 days.

The increase at March 31, 2006, in current liabilities of $932,000 or 26% compared to the previous fiscal year is primarily attributable to two factors: the higher level of business activity, which increased payables relating to operating costs; and the growth in personnel, which increased payroll-related liabilities. Other factors that affect this balance from year to year include the amount of the current portion of employee future benefits, and the timing of expenditure incurrence and payment.

Liquidity and Capital Resources – Table 12 *($ 000's)*

	RESULTS: 2005-06	RESULTS: 2004-05	VARIANCE	
Cash	$ 7,295	$ 5,152	$ 2,143	42%
Trade receivables	7,212	5,796	1,416	24%
Current liabilities	4,545	3,613	932	26%

PROVISION FOR EMPLOYEE FUTURE BENEFITS

The Corporation records a liability for the estimated cost of severance, including health care benefits for its retirees. This estimate is actuarially determined. The accrued severance and other benefits balance as at March 31, 2006, increased by $1,305,000 or approximately 23% over the previous fiscal year. The balance increased by the amount of benefits accrued in the current fiscal year of $1,395,000 ($1,187,000 in the previous year) and decreased by the amount of benefits paid in the current fiscal year of $90,000 ($129,000 in the previous year). The provision for employee future benefits fluctuates from year to year due to a combination of factors, including the inflation rate, workforce changes, changes in the discount rate (which is determined by reference to market interest rates), changes in the average rate of salary increases, and changes to the average expected remaining service lifetime of active employees, due to the changing demographics. Note 4 to the financial statements describes the actuarial assumptions used in determining the provision. This liability is primarily long term in nature and the Corporation estimates the current payout amount based on the best information available. Although the Corporation has not specifically segregated funds for this obligation, it has sufficient capital resources to meet its employee future benefit payment obligations as they become due.

Provision for Employee Future Benefits – Table 13 *($ 000's)*

	RESULTS: 2005-06	RESULTS: 2004-05	VARIANCE	
Accrued future benefits	$ 6,891	$ 5,586	$ 1,305	23%
Less: current portion	329	252	77	31%
Long-term portion	**$ 6,562**	**$ 5,334**	**$ 1,228**	**23%**

FISCAL 2005–2006 ACTUAL RESULTS COMPARED TO PLAN The 2005–06 to 2009–10 Corporate Plan Summary (the Plan) was tabled in the House of Commons in summer 2005. The table below indicates the Corporation's actual performance for fiscal 2005–06 compared to the projections in the Plan.

Services revenue was $7,101,000 (about 20%) higher than Plan. This variance is attributable to higher than expected business volumes.

Interest revenue, which is generated from the Corporation's average current account bank balance, was $93,000 (about 131%) above Plan. This variance is due to a combination of higher average cash balances and higher than expected average interest rates during the year.

Salaries and employee benefits were $5,338,000 (about 18%) higher than Plan. This increase is largely the result of the higher business volumes previously discussed, which in turn resulted in greater staff growth than expected.

Operating and administrative expenses were $208,000 (about 4%) lower than Plan. This decrease is due primarily to the lower-than-expected spending on training and development, professional fees and business development.

Amortization of capital assets was $52,000 (about 6%) lower than Plan. This variance is the result of the lower level of capital expenditures compared to Plan.

Capital expenditures were $62,000 (about 8%) lower than Plan. This decrease is due to lower-than-expected spending for computer software.

Fiscal 2005-2006 Actual Results Compared to Plan – Table 14 *($ 000's)*

	ACTUAL	PLAN	VARIANCE	
Revenue				
Services	$ 42,481	$ 35,380	$ 7,101	20%
Interest	164	71	93	131%
	42,645	**35,451**	**7,194**	**20%**
Expenses				
Salaries and employees benefits	35,310	29,972	5,338	18%
Operating and administrative	5,108	5,316	(208)	-4%
Amortization of capital assets	769	821	(52)	-6%
	41,187	**36,109**	**5,078**	**14%**
Net Income	**$ 1,458**	**$ (658)**	**$ 2,116**	**-322%**
Capital expenditures	**$ 748**	**$ 810**	**$ (62)**	**-8%**

Five-Year Summary Financial Information – Table 15 *($ 000's)*

	2005–06	2004–05	2003–04	2002–03	2001–02
Revenue					
Services	$ 42,481	$ 34,641	$ 29,417	$ 24,422	$ 20,052
Interest	164	93	126	113	102
	42,645	**34,734**	**29,543**	**24,535**	**20,154**
Expenses					
Salaries and employee benefits	35,310	28,671	24,009	19,274	16,642
Operating and administrative	5,108	4,268	4,428	3,476	3,004
Amortization of capital assets	769	808	830	1,262	436
	41,187	**33,747**	**29,267**	**24,012**	**20,082**
Net income	**$ 1,458**	**$ 987**	**$ 276**	**$ 523**	**$ 72**
Surplus, beginning of year	**3,861**	**2,874**	**2,598**	**2,075**	**2,003**
Surplus, end of year	**$ 5,319**	**$ 3,861**	**$ 2,874**	**$ 2,598**	**$ 2,075**
Assets					
Cash	$ 7,295	$ 5,152	$ 4,307	$ 4,232	$ 2,259
Accounts receivable, due from related parties, prepaids and advances	7,648	6,152	5,306	4,570	3,908
Capital assets	1,483	1,504	1,444	889	1,247
	$ 16,426	**$ 12,808**	**$ 11,057**	**$ 9,691**	**$ 7,414**
Liabilities					
Accounts payable, due to related parties and accrued liabilities	$ 4,216	$ 3,361	$ 3,655	$ 3,294	$ 1,957
Provision for employee future benefits	6,891	5,586	4,528	3,799	3,382
	11,107	**8,947**	**8,183**	**7,093**	**5,339**
Capital stock and surplus					
Common shares	-	-	-	-	-
Surplus	5,319	3,861	2,874	2,598	2,075
	5,319	**3,861**	**2,874**	**2,598**	**2,075**
	$ 16,426	**$ 12,808**	**$ 11,057**	**$ 9,691**	**$ 7,414**
Cash flows from (used in)					
Operating activities	$ 2,891	$ 1,713	$ 1,467	$ 2,877	$ (895)
Acquisition of capital assets	(748)	(868)	(1,392)	(904)	(587)
	2,143	**845**	**75**	**1,973**	**(1,482)**
Cash, beginning of year	5,152	4,307	4,232	2,259	3,741
Cash, end of year	**$ 7,295**	**$ 5,152**	**$ 4,307**	**$ 4,232**	**$ 2,259**

FUTURE OUTLOOK

The Corporation has traditionally taken a conservative approach to forecasting future growth. The Corporation's latest Corporate Plan shows an increase in revenues of 12% for 2006–07. For the remaining Plan years, revenue growth has been forecasted to increase year over year by approximately 3%, which is in line with expected increases in salaries and benefits. Business volumes are assumed to remain constant over this period.

Salaries and benefits expenses for 2006–07 are forecasted to increase by approximately 15% over the previous year. This increase is due to a combination of an expected increase in total staff (10%), as well as to inflationary and merit increases to salaries (5%). For future years, the Corporation's financial forecasts assume an increase in salaries and benefits of approximately 3% year over year, with staff strength assumed to remain constant over this period.

Operating and administrative expenses for 2006–07 are projected to increase by 25% over the previous year. This increase is due to a combination of inflationary increases, increased business volume, and higher projected spending on rent and certain discretionary expenses, such as employee training and development and professional fees. For the remaining Plan years, operating and administrative expenses are forecasted to increase year over year by 3%, primarily to cover projected inflation increases.

Amortization of capital assets is expected to increase by 21% in 2006–07 over the previous year, due mainly to the projected increase in capital expenditures. Projections for capital expenditures, as discussed below, will affect the year-to-year fluctuation in the amortization of capital assets over the remaining years of the Plan.

A loss of $172,000 is forecast for 2006–07 in order to return to the Corporation's client, DND, part of the operating surplus realized in 2005–06, which is not considered necessary for future operating purposes. This is done by maintaining billing rates from the previous year. This approach is in keeping with the Corporation's financial management policy, previously discussed. For the remaining Plan years, the forecast assumes a more or less break-even position.

Capital expenditures are projected to increase by 56% in 2006–07 over the previous year. The anticipated expenditures for the year ending March 31, 2007, will primarily relate to ongoing requirements to provide computers and software to new employees, as well as to upgrade older computer systems and software. In addition, the 2006–07 capital budget includes expenditures for a new Human Resource Information System, as well as other software applications to improve collaborative business processes and to help the Corporation deliver training and development programs to employees. Increased spending is projected in the years ending March 31, 2010, and March 31, 2011, in anticipation of major expected upgrades to the Corporation's main computer systems and software applications.

GLANCE FORWARD Based on the performance results reported for 2005–06 and trends established over the past five years, the outlook for the Corporation in the short and medium term is one of continued growth. DND spending on infrastructure has been stable in recent years and might increase in the short to medium term, depending on the way new government and defence policies are implemented. It appears likely that DND's investment in environmental management and remediation will increase in the future.

Demand for DCC services can no longer be measured directly by the value of contract expenditures related to delivering programs. Approximately half of the value of the services DCC provides to DND is directly related to contracting with consultants and contractors and to contract management. The other half is now made up of value-added services related to project and program management, and of specialty professional services in areas such as environmental sciences, energy management and building commissioning. This latter group of services will be the Corporation's largest growth sector in the future.

Management will continue to focus on controlling and sustaining service growth, improving internal corporate service support to operations, implementing the training and development initiative, and consolidating the functional matrix management concept.

This is a time of transition for DCC on many fronts. The application of a corporate wide service line management

structure over the traditional regional management concept is a big step for DCC. Its implementation will improve the ability of service line staff to leverage knowledge and skills across the company, for the benefit of the client. This change will come into full force over the next several years. Russ Perrie, Vice-President, Operations will be retiring halfway through the coming year. His dedication and contribution to maintaining and improving the quality of service delivery and corporate management over his 28 years with DCC will be missed. Joing the Corporation is Steve Irwin, as Vice-president, Operations, who brings a wealth of experience as a Canadian Forces engineer, having attained the rank of Brigadier-General in June 2001 and serving as Director General Military Engineering/J3 Engineers at National Defence Headquarters in Ottawa.

DCC billing rates will again be held at 2004 levels for 2006–07. Inflationary pressures will inevitably force an increase at some point, but DCC will continue to offer cost-effective services for the foreseeable future.

The management of DCC has always been founded on good corporate governance. Both management and the Board of Directors will monitor and respond to new direction from the government to improve transparency, accountability and good business practices. One of the board's priorities in the next fiscal year will be to work with the Minister to ensure board succession and continuity through the appointment process.

Financial Outlook – Table 16 *($ 000's)*

	2005–06 ACTUAL	2006–07 PLAN	2007–08 PLAN	2008–09 PLAN	2009–10 PLAN	2010–11 PLAN
Revenue						
Services	$ 42,481	$ 47,657	$ 49,206	$ 50,805	$ 52,583	$ 54,160
Interest	164	126	131	128	127	129
	42,645	**47,783**	**49,337**	**50,933**	**52,710**	**54,289**
Expenses						
Salaries and employee benefits	35,310	40,622	41,841	43,096	44,389	45,721
Operating and administrative	5,108	6,401	6,593	6,791	6,995	7,205
Amortization of capital assets	769	932	968	1,122	1,349	1,454
	41,187	**47,955**	**49,402**	**51,009**	**52,733**	**54,380**
Net income (loss)	**$ 1,458**	**$ (172)**	**$ (65)**	**$ (76)**	**$ (23)**	**$ (91)**
Capital expenditures	**$ 748**	**$ 1,166**	**$ 960**	**$ 1,040**	**$ 1,645**	**$ 1,400**

2005–2006 FINANCIAL STATEMENTS

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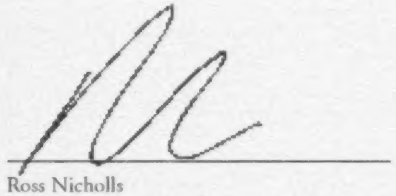
MANAGEMENT RESPONSIBILITY STATEMENT

The management of the Corporation is responsible for the performance of the duties delegated to it by the Board of Directors. These include the preparation of an Annual Report and the production of its contents, together with the financial statements. These statements, approved by the Board of Directors, were prepared in accordance with Canadian generally accepted accounting principles appropriate in the circumstances and consistently applied. Financial and operating information appearing in the Annual Report is consistent with that contained in the financial statements.

Management relies on internal accounting control systems designed to provide reasonable assurance that relevant and reliable financial information is produced and that transactions comply with the relevant authorities.

Management also maintains financial and management control systems and practices designed to ensure the transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *Defence Production Act*, the *Canada Business Corporations Act* and the articles and by-laws of the Corporation. These systems and practices are also designed to ensure that assets are safeguarded and controlled and that the operations of the Corporation are carried out effectively. In addition, the Audit Committee, appointed by the Board of Directors, oversees the internal audit activities of the Corporation and performs other such functions as are assigned to it.

The Corporation's external auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing the report thereon.



Ross Nicholls
President and Chief Executive Officer

Angelo Ottoni
Chief Financial Officer

May 5, 2006

Auditor General of Canada
Vérificatrice générale du Canada

To the Minister of Public Works and Government Services

I have audited the balance sheet of Defence Construction (1951) Limited as at March 31, 2006 and the statements of operations, surplus and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Defence Production Act*, the Canada *Business Corporations Act*, and the articles and by-laws of the Corporation.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 5, 2006

BALANCE SHEET

AS AT MARCH 31, 2006 (IN THOUSANDS OF DOLLARS)

	2006	2005
ASSETS		
Current		
Cash	$ 7,295	$ 5,152
Due from related parties (note 5)	7,212	5,796
Prepaids, advances and accounts receivable	436	356
	14,943	11,304
Capital assets (note 3)	1,483	1,504
	$ 16,426	$ 12,808
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 3,684	$ 3,162
Due to related parties (note 5)	532	199
Current portion - provision for employee future benefits (note 4)	329	252
	4,545	3,613
Provision for employee future benefits (note 4)	6,562	5,334
	11,107	8,947
CAPITAL STOCK AND SURPLUS		
Capital stock		
Authorized - 1,000 common shares of no par value		
Issued - 32 common shares	-	-
Surplus	5,319	3,861
	5,319	3,861
	$ 16,426	$ 12,808

Contingencies (note 8)

The accompanying notes are an integral part of these statements.

Approved by the Board:

Director
John D. McLure

Director
Jean-Claude Garneau

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2006 (IN THOUSANDS OF DOLLARS)

	2006	2005
REVENUE		
Services (note 5)	$ 42,481	$ 34,641
Interest	164	93
	42,645	34,734
EXPENSES		
Salaries and employee benefits	35,310	28,671
Operating and administrative	5,108	4,268
Amortization of capital assets	769	808
	41,187	33,747
NET INCOME	$ 1,458	$ 987

STATEMENT OF SURPLUS
FOR THE YEAR ENDED MARCH 31, 2006 (IN THOUSANDS OF DOLLARS)

	2006	2005
Surplus at beginning of year	$ 3,861	$ 2,874
Net Income	1,458	987
Surplus at end of year	5,319	3,861

The accompanying notes are an integral part of these statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2006 (IN THOUSANDS OF DOLLARS)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 1,458	$ 987
Items not requiring cash		
Provision for employee future benefits	1,395	1,187
Amortization	769	808
Net decrease in non-cash working capital balances related to operations	(641)	(1,140)
	2,981	1,842
Employee severance and other benefits paid	(90)	(129)
	2,891	1,713
CASH FLOWS USED IN INVESTING ACTIVITIES		
Acquisition of capital assets	(748)	(868)
Increase in cash during the year	2,143	845
Cash at beginning of the year	5,152	4,307
Cash at end of the year	$ 7,295	$ 5,152

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

1. AUTHORITY AND OBJECTIVE

Defence Construction (1951) Limited was incorporated under the *Companies Act* in 1951 pursuant to the authority of the *Defence Production Act* and continued under the *Canada Business Corporations Act*. The Corporation is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. Since 1996, responsibility for the Corporation has rested with the Minister of Public Works and Government Services. The Corporation is not subject to income taxes.

The mandate of the Corporation is to provide procurement, construction, professional, operations and maintenance services in support of the defence of Canada. The prime, but not exclusive, beneficiary of the Corporation's services has always been the Department of National Defence. Other government departments and agencies who play a role in Canada's defence may also avail themselves of these services. Revenue is generated from fees charged for specific services provided.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies followed in the preparation of these financial statements are summarized below.

CAPITAL ASSETS Capital assets are comprised of leasehold improvements, equipment and computers (which includes hardware, purchased software and implementation costs). These assets are amortized on a straight-line basis as follows:

Equipment:	5 years
Computers:	3 years
Leasehold improvements:	Initial lease term

In the year of acquisition, a full year of amortization is recognized.

EMPLOYEE FUTURE BENEFITS Employees are entitled to specific severance and other non-pension benefits as well as participating in the Public Service Pension Plan administered by the Government of Canada.

- Severance and other non-pension benefits

The projected accrued benefits obligations are actuarially determined using the projected benefit method pro-rated on service (which incorporates management best estimates of expected salary escalation, retirement ages of employees and expected health care costs). The current year expense is comprised of current service cost during the year, imputed interest on the projected benefit obligation and the amortization of the actuarial loss in excess of 10% of the benefit obligation over the average remaining service period of active employees.

PENSION BENEFITS Although the Public Service Pension Plan is a defined benefit plan, it meets the definition of a multi-employer plan, which is accounted for as a defined contribution plan, as sufficient information is not available to record it as a defined benefit plan. The Corporation's contributions to the plan are currently based on a multiple of the employees' required contributions, and may change over time depending on the experience of the plan. These contributions represent the total pension obligations of the Corporation and are expensed during the year in which the services are rendered. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Pension Plan.

REVENUE Revenue is recognized in the year the service is performed.

MEASUREMENT UNCERTAINTY The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Areas where significant estimates have been made include employee future benefits. Actual results could differ from those estimates.

3. CAPITAL ASSETS

(in thousands of dollars)	2006			2005
	Cost	Accumulated amortization	Net	Net
Equipment	$ 1,425	$ 1,080	$ 345	$ 267
Computers	7,469	6,960	509	634
Leasehold Improvements	877	248	629	603
	$ 9,771	$ 8,288	$ 1,483	$ 1,504

4. PROVISION FOR EMPLOYEE FUTURE BENEFITS

- Severance and other non-pension benefits

The benefit plan is not funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation.

(in thousands of dollars)	2006	2005
Total provision for employee future benefits	$ 6,891	$ 5,586
Less: current portion	329	252
	$ 6,562	$ 5,334

(in thousands of dollars)	2006	2005
Projected benefit obligation	$ 8,039	$ 6,536
Unamortized actuarial losses	(1,148)	(950)
Provision for employee future benefits	$ 6,891	$ 5,586
Current year's expense	$ 1,395	$ 1,187
Benefits paid during the year	$ 90	$ 129

The significant actuarial assumptions adopted in measuring the Corporation's severance and other benefit plans are as follows:

	2006	2005
Discount rate for projected benefits obligation	5.25 %	5.60 %
Average rate of general salary increases	3.67 %	3.60 %
Inflation rate	2.67 %	2.60 %
Average rate of extended health care cost increases	4.67 %	4.60 %
Mortality rates based on Group Annuity Mortality - Year	1994	1994
Retirement age	59	59

The measurement date for the last actuarial valuation of the accrued benefits obligation was April 4, 2006.

- Pension benefits

The current year's contributions by the Corporation to the Plan were $3,080,666 (2005 - $2,386,109).

5. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business under its stated mandate. These transactions are measured at the exchange amount, which is the actual amount of the consideration given or received for the services provided. The Corporation's services revenue is generated primarily from services provided to the Department of National Defence.

The Department of National Defence provides office space free of charge for some employees of the Corporation.

Amounts due from and to related parties at the end of the year are as follows:

(in thousands of dollars)	2006	2005
Due from:		
Department of National Defence	$ 7,020	$ 5,625
Public Works and Government Services Canada	171	43
Department of Foreign Affairs	16	125
Department of Natural Resources	5	3
	$ 7,212	$ 5,796
Due to:		
Department of National Defence	$ 116	$ 130
Public Works and Government Services Canada	416	61
Department of Justice	-	8
	$ 532	$ 199

6. LEASE COMMITMENTS

The Corporation leases office space for its operations. The future minimum annual lease payments are as follows:

YEAR ENDING MARCH 31	
(in thousands of dollars)	
2007	$ 1,308
2008	1,291
2009	1,214
2010	1,171
2011	1,093
2012-2014	2,700
	8,777

7. FINANCIAL INSTRUMENTS

Financial instruments consist of cash, accounts receivable and accounts payable. Accounts receivable and accounts payable are primarily due on demand and non-interest bearing. The carrying amounts of these financial instruments approximate fair values due to their short-term nature. With the exception of amounts due from the Department of National Defence and other government departments, there is no concentration of accounts receivable with any one customer and, accordingly, no significant credit risk exists.

8. CONTINGENCIES

Letters of credit aggregating $200,000 (2005 – $200,000) in respect of contractual obligations are currently outstanding. The Corporation is currently involved in legal claims in respect of contractual obligations totalling $6,031,325 (2005 – $6,301,007) and in respect of employment matters totalling $125,000 (2005 – $125,000). In the opinion of management and legal counsel, the position of the Corporation is defensible. However, the final outcome of such claims is not determinable. In accordance with the terms of an Annex to the Memorandum of Understanding between the Corporation and the Department of National Defence, the settlements resulting from the resolution of any existing and future legal claims in respect of contractual obligations will be entirely funded by the Department, in the year of settlement. As a result of this Annex, and its assessment of risk, the Corporation does not consider it necessary to record any liabilities in its financial statements relating to potential legal claims.